

Compensation and Benefits Policy Design and Implementation – A Company's Key To Success

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Fait à Carouge, le 16 juillet 2020

Déborah Isabelle Mir

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Executive Summary

Compensation and Benefits (C&B) plays an important role in today's competitive world whilst aspects relating to employee wellness are also being given increasing consideration by employers. Given the importance of this matter, this thesis explores the elements that need to be considered by Executive and Human Resources Management when designing an effective C&B policy.

When well designed, a C&B policy is a powerful tool used to attract, motivate and retain employees. The case of a fictitious company is presented to demonstrate the application of the theoretical aspects of C&B to a real-world scenario.

As a C&B policy is specific to each organization, it is important to consider, analyze and review all aspects which could have material influence. Some of these aspects are related to the company's DNA, workforce demographic, economic trends, exogenous factors like the current global health crisis (Covid-19) and peer group salary practices.

When defining the C&B policy, and in order to measure its effectiveness, a set of objectives must be clearly stated. Finally, detailed job descriptions, evaluations and market data such as salary, employee benefits and wellness will be needed to finalize its design.

The aforementioned process facilitates the implementation of an effective C&B policy. The result, as measured by certain key performance indicators and qualitative observations, is a net positive contribution to the company. Specifically, a decrease in sporadic sickness leave, delays and turnover as well as an increase in employee motivation, job applications from qualified external candidates and, perhaps most importantly, an improvement in the company's net profit.

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1. Introduction

More than ever, companies are facing increasing challenges due in part to a rapidly changing economy and increased market competition. A key success factor, as highlighted in the current global pandemic (Covid-19), is organizational flexibility. Moreover, effective management and good governance will allow organizations to overcome some of these challenges. As human capital plays a central role in any organization, the implementation of a robust compensation and benefits (C&B) policy is key. Compensation refers to the financial remuneration that employees receive in exchange for their labor and can take different forms such as fixed or variable salaries, whereas benefits refer to the value provided to employees beyond compensation. With employee wellness becoming more important, organizations need to consider non-financial incentives which need to be put in place above and beyond compensation or benefits.

A well-designed C&B policy is a powerful tool used by Human Resources (HR) to **attract, motivate and retain employees**. Research shows that compensation, benefits and wellness significantly influence employee effectiveness and thus the organization's overall performance. According to Bhattacharyya (2009), *"balancing the cost of compensation and retaining employees has now become the most important priority for today's organizations"*. It is therefore crucial for companies to know how to attract the best talents, keep those talents motivated, and above all, retain the best employees.

Given the importance of this matter, this thesis explores the elements that need to be considered by Executive and Human Resources Management when designing an effective C&B policy. A short summary on the evolution of C&B is provided, followed by an overview covering the structure and individual components related to C&B as well as wellness. The creation and implementation of a C&B policy is outlined for a fictitious company operating in the recycling industry in Switzerland with the aim of guiding readers through the process and apply theory to a real-world scenario which took place in 2019.

2. Compensation & Benefits throughout time

Employee compensation has been used for over centuries to reward employees in exchange for labor and has evolved throughout time. One of the milestones in this domain was the work of Frederick Wilson Taylor¹, also known as the father of scientific management. Taylor's scientific management concept was to link efficiency to performance and promoted the idea of "*A fair day's pay for a fair day's work*". Workers would be paid based on their work efficiency and Taylor believed that this system would encourage people to work better. One of the most popular criticisms of Taylorism is the lack of attention to human needs and appreciation (Caldari 2007). With time, an organization's approach to management started by integrating the needs of their employees. Maslow's hierarchy of needs by Abraham Maslow² notes that humans are motivated by five categories of needs which are physiological, safety, social, esteem, and self-actualization³.

Another factor that characterizes the evolution of compensation happened during World War II, where salary and price controls prevented companies from remaining competitive in terms of employee pay. As a result, companies started offering benefits such as health allowance and attractive retirement plans to compensate for the stagnant salaries (DeRosa 2018).

The introduction of employee stock options is also one of the elements that has contributed to the development of compensation (Moehrle 2001). By the 1990s, financial markets had grown 15 times from their level of the early 1980s (Bachelder III 2014). As such, employee stock option programs had become one of the most popular tools used in recruitment and retention (Stanley 2018).

More recently, companies developed performance share plans, allowing participants to receive actual company shares in order to better align management interest with the company's long-term objectives. This can be done by introducing and measuring key performance objectives which can include internal financial mid-term objectives and/or comparison with an external peer group. Final delivery of the company's shares is contingent upon achievement of these mid-term's measures and is an effective

¹ American engineer, promoter of the Scientific Management (1856 - 1915)

² American psychologist, father of humanistic psychology (1908 - 1970)

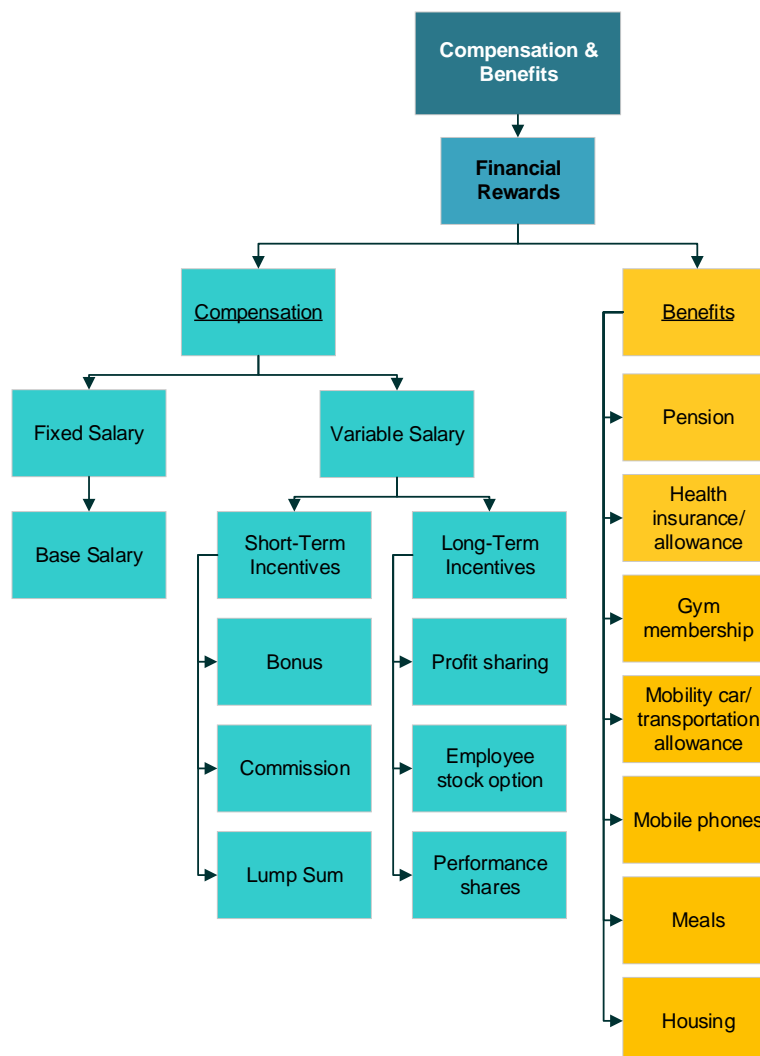
³ Appendix 1: Maslow's pyramid of needs

mechanism to foster growth and success whilst aligning stakeholder interests (Vidal 2020)⁴.

3. A global overview

In large companies, there is often a dedicated C&B function within the HR department. Thus, a C&B Manager will work closely with the Senior HR Manager as well as the finance department. As a C&B policy covers a multitude of elements, it needs to be tailored to each organization. However, below diagram presents the key elements that need to be considered and the different terms, though generic, are widely used in many types of organizations worldwide, including Switzerland.

Figure 1 : Elements of Compensation and Benefits



⁴ Interview with Mr VIDAL, Expert Compensation & Benefits, Geneva, May 4th 2020.

3.1 Compensation

3.1.1 Fixed Salary

A fixed salary corresponds to the base salary which is a fixed amount paid to employees in exchange for their work. Base salary does not include benefits, bonuses or any other form of compensation. The base salary is established according to the skills required, represents the valuation of roles and responsibilities of the job within the market as well as markets scarcity.

3.1.2 Variable Salary

A variable salary is an amount paid to employees throughout the year which can be represented in two different forms:

Short-term incentives are used for short-term objectives (1 month to 1 year) and are aligned with individual and organization performance. Short-term incentives can take different forms such as bonuses, commissions, lump sum, etc.

Long-term incentives are used for long-term objectives (2 to 5 years) and are generally designed for Managers and/or Executives. Long-term incentives include profit-sharing which represents a percentage of the company's profits that is distributed or allocation of stock option where participants can buy several shares in the company at a fixed price. Executives may also receive actual shares for a performance share plan or a mix of actual shares and stock options.

3.1.3 Benefits

Benefits can be defined as any other additional value, other than base salary and variable salary. According to Ryzhova (2013) citing Armstrong (2012), benefits are an important element of compensation as it is *“a strategic tool that helps strengthen employee value proposition while helping to improve the image of an organization.”* The types of benefits offered by employers are varied and will depend on the organization. Benefits typically include an attractive pension scheme, health insurance subsidies, gym membership, mobility car/transportation allowance, mobile phones, meals and housing for example.

3.2 Total Rewards Policy

In light of the attention to employee wellness, it is no longer sufficient for organization to focus only on compensation and benefits. The inclusion of this additional factor is defined as having a Total Rewards Policy approach. A definition of such a model, as defined by WorldatWork, a leading Organization operating in the Total Rewards area, is as follows:

Compensation: Compensation paid to employees in exchange for their work. Compensation includes fixed and variable pay.

Benefits: The various programs that employers initiate for employees within the organization to supplement cash compensation. Different programs such as health insurance and pension allowance ensure the safety of employees and their families.

Work-Life Effectiveness: A set of organizational programs and practices to support employees in their professional activities at work and at home.

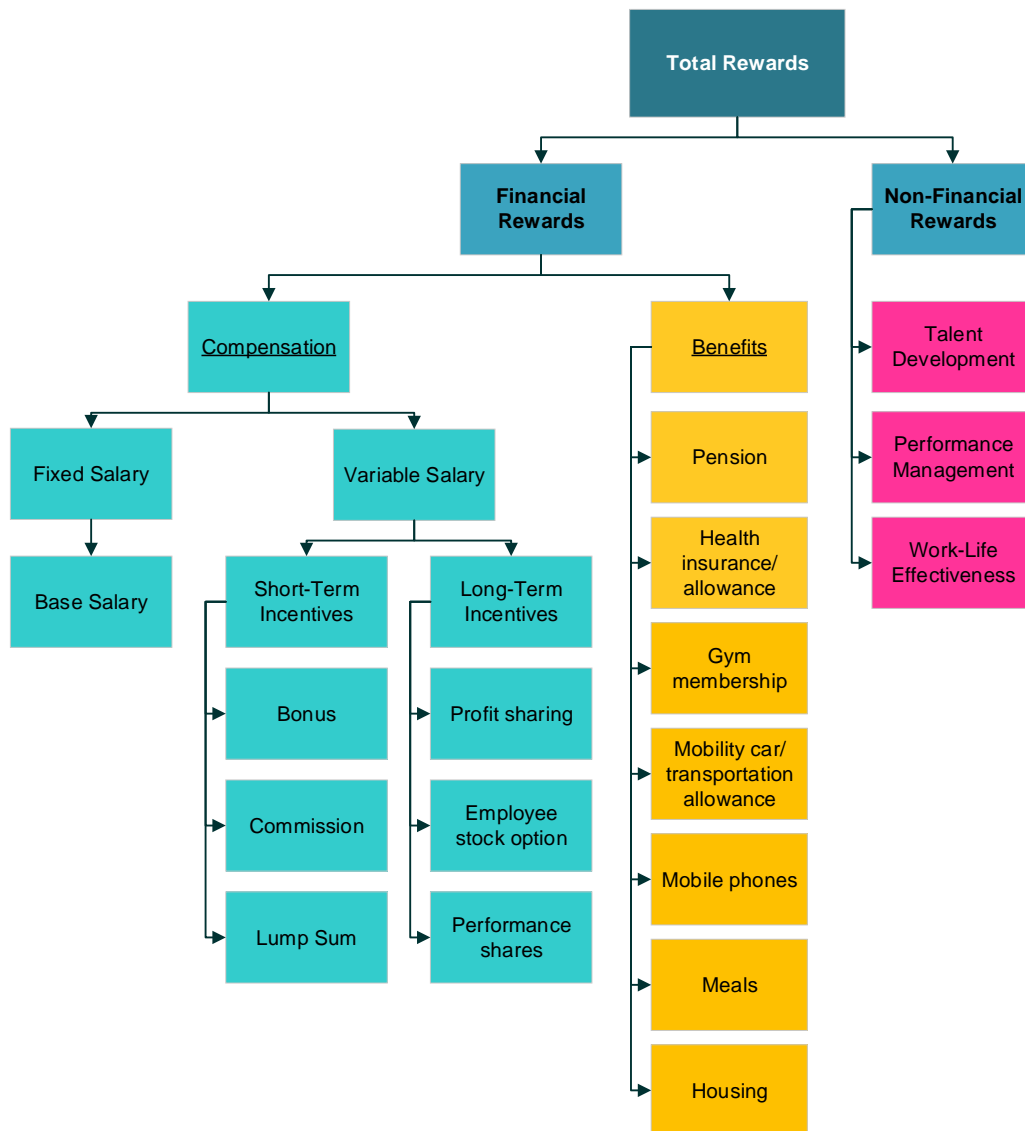
Performance Management: Consider and align individual and group efforts that achieve business goals. This includes goal achievement, skill demonstration, feedback and, continuous improvement.

Talent Development: Provides employees with the necessary tools to perform in their skills in the short- and long-term career. Career opportunities to effectively deploy talented employees are supported by companies allowing them to provide their greatest value to the organization.

Recognition: The actions, efforts, behavior and performance of employees who support the organization's strategy will be recognized through programs that can be formal or informal.

Although this thesis focuses mainly on the implementation of a C&B policy, aspects of employee wellness will also be addressed. As employee wellness does not generally fall within the mandate of a C&B Manager, and for the sake of clarity, both aspects have been covered separately. The below diagram represents a Total Rewards policy:

Figure 2 : Elements of Total Rewards Policy



Worldatwork, Total Rewards Model

4. Better Future SA

As presented in the introduction, the implementation of a C&B policy for a fictitious company takes place in Switzerland and will be described below. Although fictitious, the information presented has been based on real case studies and my personal professional experience.

Better Future SA is a family run business based in Geneva and founded in 1999. The company specializes in the recycling of Polyethylene Terephthalate (PET) and operates across the French speaking part of Switzerland. The core activity is the recycling of used PET bottles, transformed into new PET bottles, which are later sold to their clients. Finally, the company's mission statement aims to "Collect, revalue and make our customers happy!"⁵

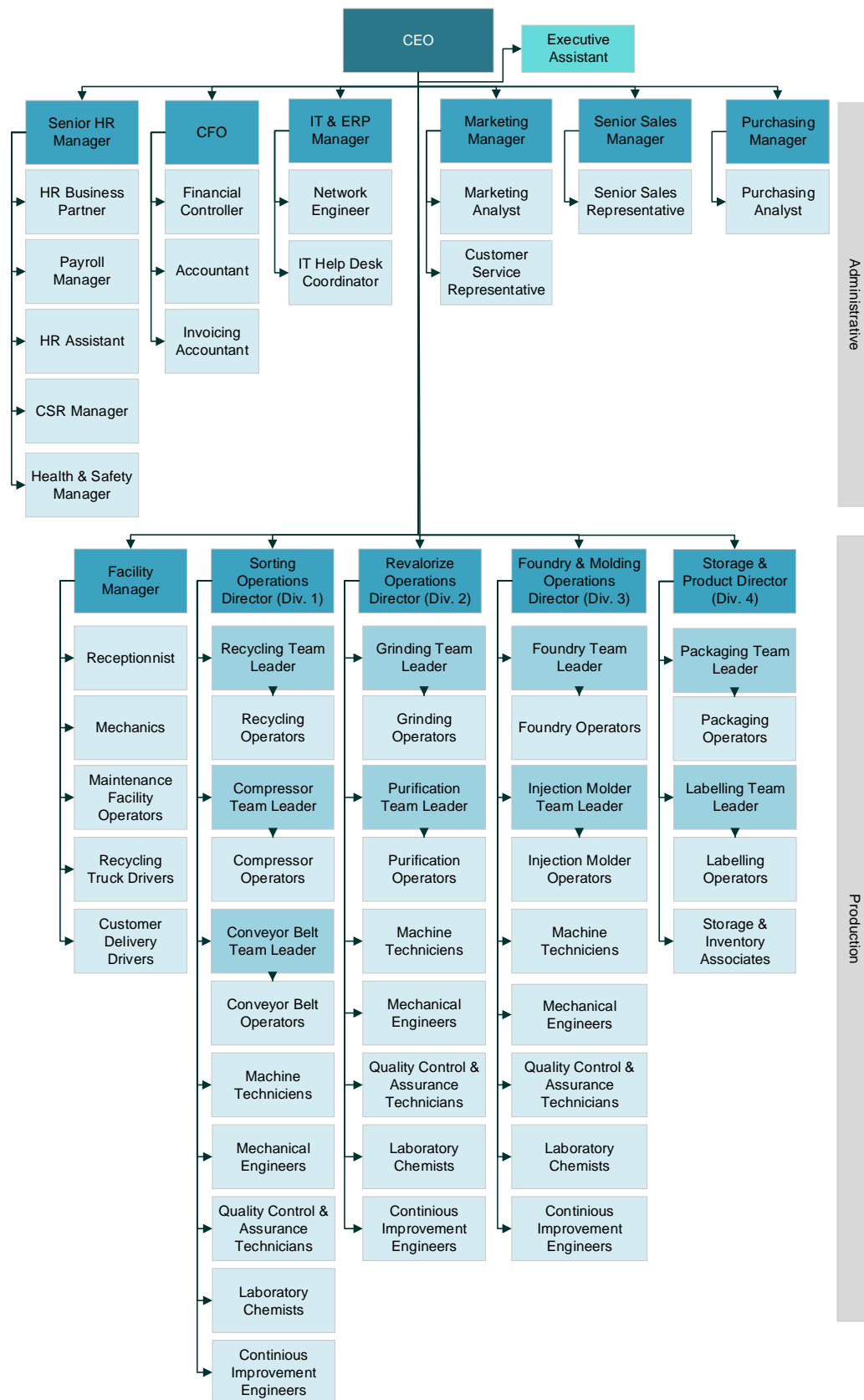
The activities of Better Future SA cover four main functions. These functions are carried out by the below divisions:

- Division n°1 – Sorting Process
- Division n°2 – Revalue Process
- Division n°3 – Melting & Molding Process
- Division n°4 - Packaging & Delivery

In 2012, the Founders decided to recruit a Chief Executive Officer (CEO) to delegate some of the managerial responsibilities of the company. Since the recruitment, the Executive Committee is composed of the CEO and four divisional Directors. End of 2018, the company has over 250 employees and the organizational structure is highlighted below:

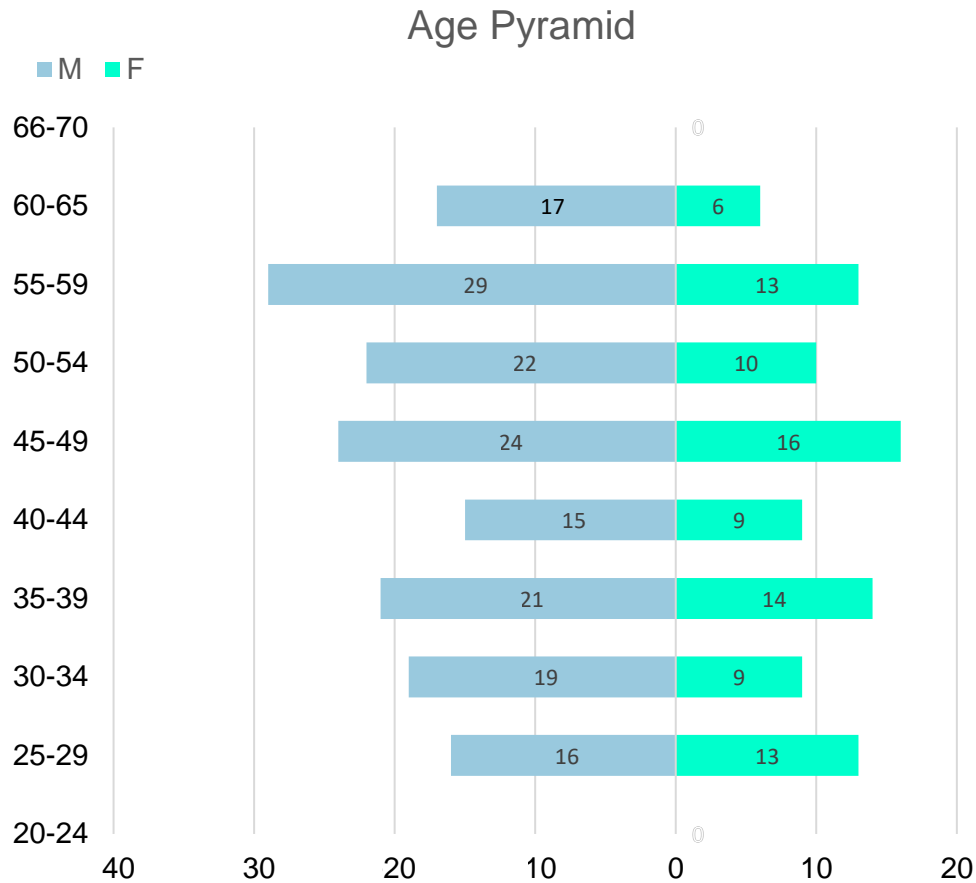
⁵ ZETLIN, Minda. The 9 worst mission statements of all time. 2013

Figure 3 : Better Future's Organizational Chart



In order to highlight the challenges of workforce efficiency within Better Future SA, the demographic structure of the company's workforce has been identified as follows:

Figure 4 : Better Future's Age Pyramid



The horizontal line shows the number of men (blue) and the number of women (green) within the company by age group from 25 to 65 years (vertical line).

Table 1: Better Future's Generations

	Baby Boomer 1946 – 1964 <i>56 to 74 years old</i>	Generation X 1965 – 1982 <i>38 to 55 years old</i>	Generation Y 1983 - 2001 <i>19 to 37 years old</i>
F	18	41	31
M	43	67	53
Total	61	108	84
Total %	24.11%	42.69%	33.20%

As of today, the company's life cycle stage⁶ is between maturity and decline which is reflected in the deteriorating business performance since several years. Evidence of this can be found in the persistent low profit margin relative to its competitors. Additionally, employee turnover has been high and business development, as measured by new client acquisition, has been stagnant.

In light of this weak performance, the Founders decided to recruit a new CEO with the aim to drastically improve the company's performance. The new CEO began his mandate January 1st, 2019.

Following a brief observation period, the CEO noticed several deficiencies, most importantly, a lack of working process, communication and collaboration across the various divisions. Although he noted that the company was offering certain benefits such as subsidy for food at the company's cafeteria and attractive prices negotiated by the company for gym memberships, when looking closer, it became patent that the C&B policy was not clearly defined across the organization. To remediate this situation and to revitalize employee performance, it was agreed with the Founders, the CEO and the HR team that an effective C&B policy should be put in place.

⁶ Appendix 2: Life Cycle Chart

5. Factors to consider when designing an effective C&B policy from a CEO's perspective

Many factors need to be considered when designing and implementing a C&B policy. Although not traditionally the direct responsibilities of the CEO, several aspects have the potential to redefine the company's DNA and need to be carefully considered.

Firstly, the CEO must make sure that the company's mission, vision and values are well defined in order to align the C&B policy accordingly. Secondly, it should be determined what type of C&B policy is best suited to the company's internal and external environment following which it will be essential to clarify the objectives and the purpose of the implementation of a C&B policy. Clearly defined objectives will give a better understanding of which steps need to be taken: does the company want to improve organization's process, attract the best talents on the market, establish pay equity within the company and/or reduce the turnover rate and therefore increase the company's profit. Once the objectives have been highlighted, the following step is to identify the applicability of the C&B policy to the various employees across the organization.

Furthermore, analysis should be undertaken to determine how different employees or functions will be rewarded and on what basis. For example, individual or team work and short or long-term objectives. Finally, when considering short term incentives, a reward scheme should be clearly defined.

It is important to remember that each business is different but also for management style. They differ not only from their activities but also from management. This is why it is essential for each company to adapt its C&B policy to the company's mission, vision and values --- also known as the company's DNA. As such, prior to establishing the C&B policy, the CEO needs to clearly redefine the company's DNA.

6. Company's DNA

It is no secret that, overtime, many companies fail. Without the clear definition of a company's purpose and objectives, it will be difficult for any company to survive and let alone thrive. Drucker (1973), a prominent management consultant said that: *"Business purpose and business mission are so rarely given adequate thought is perhaps the most important cause of business frustration and failure."* Moreover, Johnson, Whittington, Scholes, Frery (2011, p.149) citing Montgomery from Harvard University, state that defining and expressing the motivating strategic intention explicitly is an essential task of any strategist. Montgomery shares a question she asks in her MBA classes: *"If your company disappeared today, would the world be different tomorrow?"* A manager who is having a clear view of what the company's purpose is will be able to answer yes. Without a clear vision of a company's purpose, it remains a mystery to everyone who is supposed to apply it. These people are likely to end up "inventing" what the company's intentions are.

From an internal point of view of the company, the mission allows employees to establish a guideline which eases decision making. From an external point of view, this makes it possible to present the uniqueness of the organization and to obtain credibility with the stakeholders (customers, suppliers, investors, government and local communities). By explicitly determining the company's strategy, this will provide clarity to all stakeholders. It is therefore essential to identify the company's DNA in order to align the C&B policy with the values which the company embodies. Indeed, the C&B policy will be shaped accordingly to better influence employees so that they can reflect the company's purpose and objectives. According to Johnson, Whittington, Scholes, Frery (2011, p.149), there are three elements that constitute together a company's DNA:

- **Mission:** Affirmation of its fundamental intention and its purpose.
- **Vision:** What it aspires to become.
- **Core values:** The principles that underpin an organization's strategy and define how it should act.

Better Future's mission *"Collect, revalue and make our customers happy!"* explains the activities of the company but does not explicitly identify its purpose. Once reviewing the company's strategy, the CEO submits to the Executive Committee the new company's DNA:

Mission: ***“To provide PET recycling services and to revalue these products in order to secure the highest level of recycling rate so as to contribute to the preservation of our planet.”***

Better Future’s mission is to excel in the recycling process and to deliver impeccable quality products. It sees this quality as a competitive advantage. It also highlights its contribution to preserving our planet because in the end, the environment needs our protection.

Vision: ***“To maintain its reputation as an excellent organism in the PET recycling management in Switzerland, which protects and preserves the environment by bringing new value to products and creating something new out of a product that has come to the end of its useful life.”***

Core values:

Sustainability: To implement actions which protect our planet.

Quality: To provide outstanding products to ensure a safe and healthy community.

Leadership: To show the way to success by helping others grow.

Team Work: To head in the same direction as one heartbeat.

Employee uniqueness: To encourage, appreciate, and reward excellence.

Win-Win Partnerships: To create and guarantee win-win partnerships.

Integrity: To guarantee a positive word of mouth.

In terms of fundamental values, the company highlights sustainability and quality which represent a competitive advantage. It also identifies the importance of leadership, teamwork, employee’s uniqueness and recognizes and rewards the daily effort of each employee. To ensure the evolution of the company, it wishes to create and guarantee win-win partnerships while promoting its integrity.

It has been noticed that employees who are connected and identify themselves to the company’s purpose will do more to achieve their objectives. In addition, a C&B policy will also be able to motivate, guide and influence employees in order to achieve these objectives. This is why the vision, mission and values of the company must be communicated to employees in order to allow all the members of the company to have

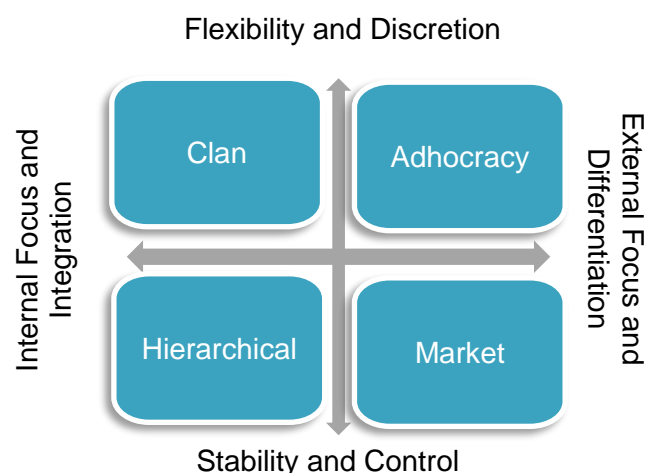
the same perception and move forward together to achieve the objectives identified by the company.

Another important element which can be considered part of the company's values is corporate culture. It refers to the values, attitudes, behaviors, and beliefs that members have within an organization. According to the website Encyclopedia – Business Terms: *“Corporate culture is rooted in an organization's goals, strategies, structure, and approaches to labor, customers, investors, and the greater community.”* Furthermore, Groysber, Lee, Price and Cheng state in Harvard Business Review: *“When properly aligned with personal values, urges and needs, culture can release huge amounts of energy toward a common goal and promote an organization's ability to thrive.”*

The corporate culture and the C&B policy are two complementary elements which support the company's objectives. Interestingly, not only does corporate culture have a significant impact on the C&B policy, but the C&B policy will have a significant influence on the corporate culture (Madhani, 2014).

The Competitive Values Framework (CVF) is a model developed by Robert Quinn and Kim Cameron that explains four types of corporate culture based on the way a business operates, employees collaborate and the values that emanate from the business. The CVF is represented as follows:

Figure 5 : Competitive Values Framework



CAMERON, Kim S. QUINN, Robert E.
Diagnosing and changing organizational culture. 2006. P. 35

Horizontal line discusses the organizational focus:

- Internal target includes the well-being and development of members within the organization.
- External target indicates the well-being and development of the company itself.

Vertical line distinguishes the structure of the organization (degree of freedom) between flexibility and stability/control.

Through the article "*Aligning compensation systems with organizational culture*", the author defines each culture and explains how to build a C&B policy accordingly (Madhani, 2014):

Clan culture focuses on common goals and shared values, teamwork, employee involvement and personal commitment. This culture is flexible but is internally oriented and will therefore be less subject to entrepreneurial activity.

C&B strategy will favor a higher proportion of fixed salary. However, teamwork and common goals are represented in this culture and that is the reason why bonuses are established based on team performance or on the results of the organization.

Adhocracy culture can be represented as a temporary institution, which means that tasks are performed temporarily to respond to a specific objective. Organizations adopting the adhocratic culture react rapidly to change and encourage individual initiative.

C&B strategy is built to attract, motivate and retain creative employees who meet the organization's need to be innovative. The C&B policy will integrate a proportion of variable salary based on achieved objectives.

Hierarchical culture forms a clear and structured organization with well-defined responsibilities, strict control with aligned rules and procedures. This culture considers the hierarchy where the individual needs of employees are subordinated to the organization's objectives.

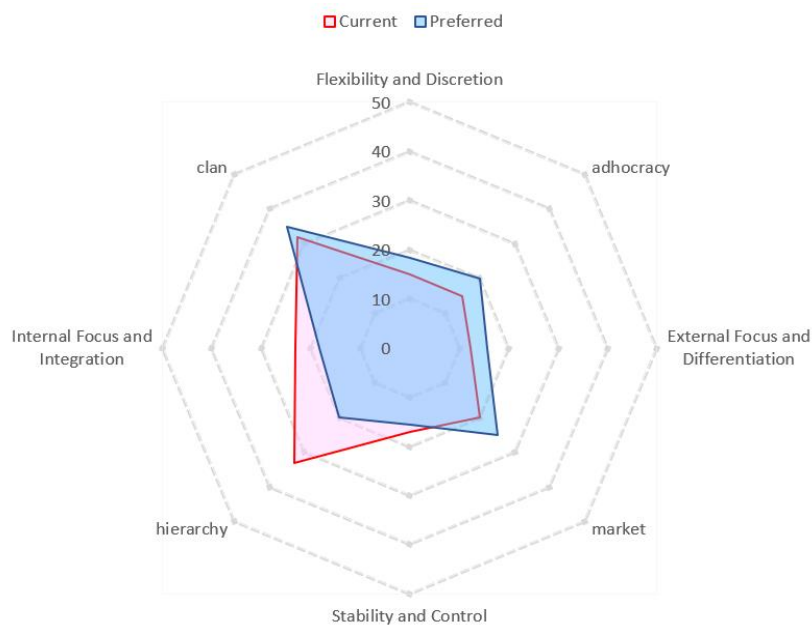
C&B strategy will focus more on control, stability and a long-term system-wide perspective from its employees. Since it can be difficult to assess long-term performance, the focus will be on employee behavior. Behavioral control implies that managers are involved in monitoring, evaluating and rewarding their employees. This corporate culture will have a C&B strategy which will provide high fixed salary and will reward employees for their behavior.

Market culture is focused on exchanges with the external environment of the company with the objective of making profits through market competition.

C&B strategy will focus primarily on the operational quality of the business and as such in the retention and acquisition of market share in order for the company to evolve. Individual performance is taken into account and evaluation will be focused on the results. Therefore, a higher proportion of variable salary is recommended in order to reward employees for the achievement of their short-term objectives.

In order to establish the diagnosis of the corporate culture of Better Future SA, the CEO filled out the Organizational Culture Assessment Instrument⁷ (OCAI) questionnaire to identify the current culture and determine the desired culture he wishes to implement. OCAI measures six key dimensions of corporate culture which are dominant characteristics, organizational leadership, employee management, organizational coaching, strategic emphases and success criteria (Cameron, Quinn 2006).

Figure 6 : Better Future's Culture



Results of OCAI test

⁷ The Organizational Culture Assessment Instrument (OCAI), developed by Kim Cameron and Robert Quinn, is a validated research method to assess organizational culture.

The results show that the hierarchy culture currently dominates within the company. The aim of the CEO is to reduce the hierarchy aspect and increase teamwork, consensus and participation (clan), innovation, risk taking and uniqueness (adhocracy) as well as gain market share and be up to the competition (market). As a result, the C&B policy will be shaped based primarily on clan, adhocracy and market cultures.

7. Aligning C&B with the company's environment

7.1 Internal environment

Each company is different from one another and not all companies will have the same C&B policy. Therefore, when shaping a C&B policy, it is essential to rely on the internal elements of the company and thus adapt and create its policy accordingly.

The table 1 “Better Future's Generations” groups the types of generation working within the company. The table indicates that Baby Boomers, people close to retirement, represent about 24% of the population, Generation X represent 43% and 33% for the Generation Y. A single C&B strategy cannot be effective for all employees because depending on the age of the employees, they hold different attitude toward work and each generation values and perceives reward differently (Valickas, Jakstaite, 2017).

Therefore, in order to attract, retain and motivate, the company will have to create several types of reward strategies to consider all employees. The article “*Different Generations' attitudes towards work and management in the business organizations*” points out the different characteristics of each generations such as attitudes, behaviors, motivations and work which must be defined and considered (Valickas, Jakstaite, 2017):

Baby Boomers (1946 - 1964): The Baby Boomer generation is considered the workaholics, is very attached to their workplace and has a certain loyalty to their organization. Findings suggest that Baby Boomers are mostly motivated by relaxed stress-free job, health and freedom.

C&B strategy: An idea would be to allow employees to increase their contribution to their pension fund or offer an exit package if the employee should lose their job for one reason or another.

Generation X (1965 - 1982): Generation X have greater loyalty towards their profession rather than their organization. This generation values personal life and chooses a job allowing them to separate work and private life. Generation X are motivated through a competitive salary, flexible working hours and a job that allows them to have a good work-life-balance.

C&B strategy: Since these employees find their motivation through a good work-life-balance, the company could offer to employees the means to do home office for example.

Generation Y (1983 - 2001): This generation are the first natives of digitalization and are mostly loyal to career opportunities rather than to a given company. They tend to view their current position as a phase of learning and development. Comfortable with different technologies, Generation Y are looking for an attractive job enabling them to evolve. The motivating reasons for Generation Y are a competitive salary, training and development opportunities. In addition, this generation likes to feel free to work in another place other than on company's premises. Companies now offer the possibility to work from home or in offices outside the company as well as flexible working hours. Finally, it is more and more common that Generation Y wish to carry out humanitarian missions or to participate in a project which will have a positive impact on the environment/community. In order to achieve a personal goal, the company can support their choice and values by granting them unpaid leave during a certain period.

C&B strategy: Set up, for example, several trainings and put more emphasis on career development, flexible hours, working from outside company's offices and unpaid leave to achieve personal objectives.

Since the different characteristics have been analyzed and clarified, the CEO will therefore structure the C&B policy while considering the needs of the different generations.

7.2 Economic trends

The way each organization designs its C&B policy does not only depend on internal factors of the company but on various external factors as well. The economic landscape has a profound effect on organizations in general but also on C&B. Depending on the nature of the business activity, the most important expense of an organization may be the C&B and the elements related to employee wellness. C&B policy is at the heart of several economic trends and this is the reason why it is essential for an organization to monitor and adapt these costs according to market movements.

Unemployment rate, inflation and the gross domestic product (GDP) are the main economic trends analyzed while designing a C&B policy. Low unemployment leads to higher GDP, higher wages and higher industrial production (Labonte, Stupak, 2016). Indeed, the Phillips curve⁸, a curve indicating a negative relationship between the

⁸ Introduced by the economist W. Philippe in 1958

unemployment rate and inflation indicates that when the unemployment rate decreases, salaries increase, which leads to inflation. Conversely, if unemployment rises, the salaries increase will slow down, and inflation will fall. Although the Phillips curve has been less effective as an indicator since the financial crisis and unconventional bank policies, it is still a useful tool.

The analysis of the unemployment rate will allow to foresee the departures of employees. With a high unemployment rate on the market, employees will be reluctant to leave. On the contrary, if the unemployment rate is relatively low, it is important for Managers to take necessary measures to retain employees.

Moreover, inflation is one of the factors that allows to anticipate the evolution of the market as regards to the purchasing power of consumers. If there is an increase in the inflation rate from year to year, it will decrease the purchasing power of consumers. As a result, inflation is a factor that will have a direct impact on the company's financial decisions.

Regarding the GDP, it is an indicator of economic activity used to measure and compare economic development levels in different countries.

In order to have an overview of market data, the CEO indicated the rates provided by Mercer⁹ for the inflation and GDP and conducted an analysis on the International Monetary fund (IMF) website for the unemployment rate. Here is a summary table of data from 2018 to 2020 analyzed during the year 2019.

Table 2 : Economic Trends 2019

<u>Economic Trends</u>	2018	2019 (estimated)	2020 (forecast)
Inflation	1.1%	1.4%	1.2%
GDP	2.5%	1.8%	1.5%
Unemployment rate	2.5%	2.3%	2.7%

Mercer's TRS survey results (2019), IMF (2019)

⁹ American Human Resources Consulting Firm

7.3 Economic crisis

The coronavirus (Covid-19), which appeared in December 2019 in the city of Wuhan, China, is the cause of a global health crisis that has shaken the global economy.

The first people affected by the virus in Switzerland were detected in February 2020. As of March 16th, 2020, the Federal Confederation took the decision to close all stores, restaurants / bars as well as entertainment establishments. Only food stores and health establishments stayed open. Since that date, the Swiss economy has been put on hold, companies ceased their activity and the Swiss people were henceforth confined in their homes. Even though companies have started implementing home office to allow the continuity of certain activities such as HR, Finance and IT, all companies producing goods had no other choice but to shut down until further notice and as a result, companies are facing great losses.

Due to the pandemic, companies find themselves in a situation having to make decisions to overcome their economic loss, like for instance, reducing overtime compensation, suspending job openings without replacing departures and cutting down bonuses.

This is the reason why it is key to consider economic trends in order to adapt strategy compensation in these moments of crisis. Moreover, a C&B policy must imperatively balance financial and non-financial rewards in order to keep employees motivated, especially during exceptional times.

7.4 External pay competitiveness

One of the fundamental elements when designing a C&B policy is to consider external pay competitiveness. This is when HR come to ask themselves "what is the market doing?" (Klingler, Pieren, Lampart, Feliziani 2017, P. 60) To do so, organizations compare their compensation data with other organizations having the same size, location and similar jobs. Therefore, it will be possible to determine if employee's remuneration is aligned with the market labor. Furthermore, market data indicates the practices in terms of remuneration of competing companies. By analyzing market data, it allows organizations to be competitive and thus attract new employees. In addition, market data provide an indication of whether salaries need to be increased, which is a component of employee overall satisfaction.

8. Defining the objectives of a C&B policy

The objectives of a C&B policy are specific to each company and depend on what the company wishes to set up or improve. For instance, does the company want to improve organization's process, attract the best talents on the market, establish pay equity within the company and/or reduce the turnover rate and therefore increase the company's profit. Thus, it is essential to identify the company's greatest internal weaknesses in order to overcome them.

8.1 Salary inequalities

On the employees' side, compensation must be perceived as fair, competitive in the market and motivating (Burke 2008). Indeed, if employees notice pay inequalities within their organization, their motivation, engagement and loyalty may be discouraged, and they could end up leaving the company. According to the International Labor Organization, equal pay is a key element in the company's hiring and retention strategies. Korn Ferry¹⁰ also stated that organizations who pay their employees fairly would have better chance of attracting and retaining their best talent, unlike companies who pay unfairly will create dissatisfied employees and therefore hamper business performance.

Within Better Future SA, the CEO identified that there were indeed large salary inequalities within the company by comparing similar position titles within a division. The two most striking examples¹¹ are the salaries of a Purification Operator and a Recycling Truck Driver. First, all Purification Operators are paid around CHF 85'000, but a 33-year-old Purification Operator is paid CHF 105'000.-. A reason which could explain this gap is that he's a family member to one of the directors and will soon take over as Team Leader. The second striking example is the extremely low salary of the 62-year-old Recycling Truck Driver whose salary is CHF 62'000 whilst the other Recycling Truck Drivers earn around CHF 68'500.-. One explanation that could be given is the fact that this employee often received warnings but because of his age, the company never dismissed him.

As a result, Better Future SA must review and adjust employees' salaries. If the company is not competitive in terms of compensation, it is very likely that the employees will leave the company to go work in an organization providing better compensation.

¹⁰ Global Organizational Consulting Firm

¹¹ Figure 9: Better Future's Salary Data 2019

8.2 Turnover

The second internal weakness the CEO identified within Better Future SA was a high turnover. One of HR's objectives is to maintain a low turnover rate because a high turnover tends to have a negative impact on the company. Talented employees leaving the company because they found a better opportunity elsewhere means that the company is not only losing "know-how" but is also losing attractiveness. In addition, high turnover rate is also linked to high costs (loss of production, recruitment and training costs, etc.). According to a case study conducted by McMullen and Royal (2012), the main reasons for employee departure are the *"opportunity to earn more pay elsewhere"*, the *"lack of promotional opportunities"* and *"feelings that pay levels are unfair relative to others outside the organization"*. By identifying the main reasons for employee departure, measures can be taken to retain key employees.

According to Qualtrics, the turnover rate is calculated by adding the number of employees who have left the company during a period of time (from January 1 to December 31, for example), to the new comers during the same period, divided by 2, and divided again by the total number of employees at the beginning of this period. (January 1)¹².

A company will never have a turnover rate equal to 0% since each year, employees retire, or limited contracts come to an end. However, a too low turnover rate is not necessarily healthy for a company. If a turnover rate is low, this means that the only employees leaving the company are the ones retiring or who found a better opportunity elsewhere. Therefore, this could have a negative impact on productivity levels since low-performing employees stay within the company (Zurek).

One of the main objectives in the analysis of a turnover rate is to identify the number of employees who decide to leave the company voluntarily. This analysis will allow managers to know if the turnover rate is considered healthy. In general, a healthy turnover rate based on voluntary departures (resignations) is between 3% and 5% in Switzerland. As stated by Qualtrics *"A company's turnover is considered as low when it is less than 5%. However, if it exceeds 15%, it means that the employee attrition rate is high and that the company suffers from a poor social climate due to a variety of causes"*.

¹² (Number of departures in N + Number of arrivals in N) / 2] / Workforce as of January 1 of year N

Since the CEO identified a high turnover, he decided to carry out its analysis which was conducted mid-2019. The CEO based the turnover rate on year 2018 in order to have data for a full year.

The number of employees on January 1st, 2018 was 255 employees, and 253 employees on December 31st, 2018 with 18 new commers and 20 departures during the year. First, the CEO pointed out the main reasons of these departures. Secondly, he calculated the turnover rate based on the year 2018 and highlighted the turnover rate based on resignations only:

Table 3 : Better Future's Turnover

Reason of departure	Total	Turnover rate 2018	%
Retirement	4	Total turnover rate	7.45% ¹³
End of limited contract	2	Resignation turnover rate	6.27% ¹⁴
Dismissal	0		
Resignation	14		

This analysis shows that the company's total turnover rate is higher than 5% with a rate based on resignations at 6.27%. Better Future SA is in a situation where its turnover rate is high. Moreover, the reasons of employee resignations were mainly due to inadequate compensation, lack of career growth, training and development and finally, management dissatisfaction. As a result, Better Future's high turnover rate followed by the highlighted departure reasons represent major weaknesses for the company in terms of cost and image.

However, the real concern that stands in which the company should be more focused on is **regretted loss**. Regretted losses occur when the voluntary departure of an employee has a negative impact on the organization. Indeed, it is not always easy to replace a talented employee with solid knowledge and experience within the company. This is the reason why it is more accurate to measure the turnover based on regretted loss to define the health of an organization (Malloy Cummings 2016).

13 $\left[\frac{20+18}{2} \right] / 255$

14 $\left[\frac{14+18}{2} \right] / 255$

8.3 Lack of clarity in the company's processes

The third weakness highlighted by the CEO is the lack of working process, communication and collaboration between the different divisions. He observed that some working processes were unclear, and several employee roles and responsibilities were not well defined. To overcome this situation, the review of the entire organization's working process needed to be conducted which could potentially lead to internal restructuring.

After having identified the major weaknesses of the company which include salary inequalities, high turnover rate and lack of processes, communication and teamwork across the various divisions, the objectives of the implementation of a C&B policy will help to overcome these deficiencies.

9. Developing an effective C&B policy

9.1 Restructuring

Internal restructuring aims to develop the organization through a streamlining of the processes and redefining the functions which makes it possible to reduce the costs, to cluster energies and skills and to identify the company's assets (Held-Khawam 2002).

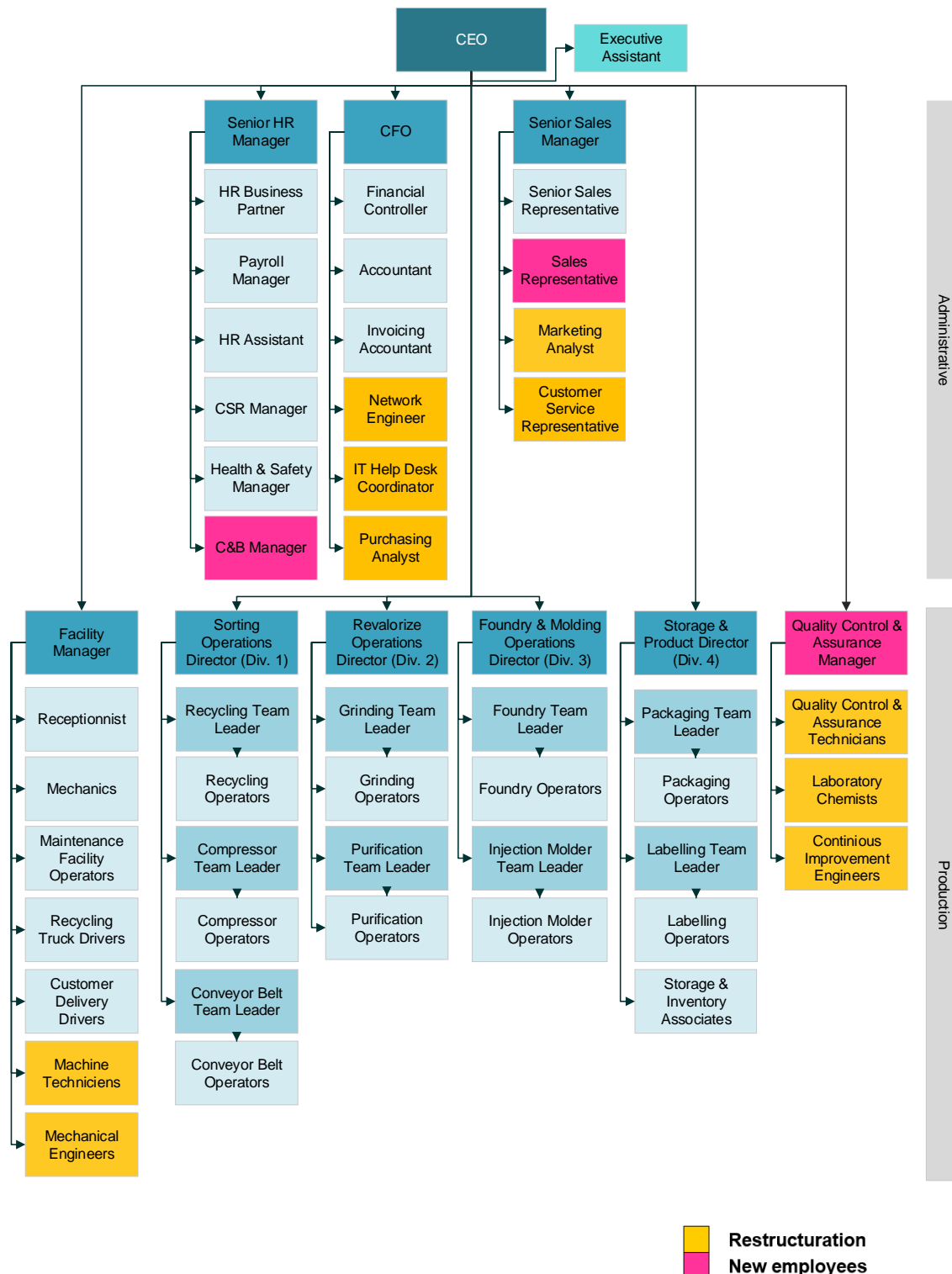
After numerous discussions between the CEO and the Founders, the CEO decided to restructure certain divisions. Nowadays, organizations must constantly improve their competitiveness and sometimes these changes involve restructuring. The aim of this restructuring within Better Future SA is to improve management system in order to increase the company's performance.

To start with the Administration services, a new position was created within the HR department. The HR needed a C&B Manager to participate in the implementation of the C&B policy and to conduct the C&B annual exercises. The decision was also made to combine IT/ERP¹⁵ and Purchasing department with the Finance department. Employees in the IT/ERP and Purchasing departments now report to the CFO. Finally, the Senior Sales Manager has been promoted and is now responsible for both sales and marketing departments. The Marketing Analyst and Customer Service Representative now report to the Senior Sales & Marketing Manager. In addition, the Senior Sales & Marketing Manager decided, with the approval of the CEO, to hire a Sales Representative to support the Senior Sales Representative in his daily activities.

¹⁵ IT: Information Technology
ERP: Enterprise resource planning

Regarding the Production services, Machine Technicians and Mechanical Engineers now report to the Facility Manager. Finally, a new service has been created with a new Quality Control & Assurance Manager, gathering together all positions relating to research and development. The new organization has been defined as follows:

Figure 7 : Better Future's New Organizational Chart



9.2 Salary structure

Now that the overall working process has been improved, the next step when designing a C&B policy will be to establish a salary structure. Salary structures are composed of compensation levels which represent the value of a job within an internal organization as well as salary market practices (Ducan 2019). According to WorldatWork, “*salary structures serve as the foundation of administering base pay within organizations*”. A well-designed salary structure will not only help to decrease salary inequalities but will also be used as a tool for Managers to reward individual performance. To create a salary structure, it would therefore be necessary to go through different stages using different compensation tools:

9.2.1 Job Analysis

A job analysis includes the study of all existing positions within an organization. For this, it is necessary to identify the activities and responsibilities of each position and to compare its importance with other positions of the company. Furthermore, it is also necessary to identify the qualifications needed in order to perform the job. This analysis leads to the review and implementation of job descriptions which includes the job title, a summary of the knowledge and skills and a list of essential tasks and responsibilities¹⁶.

In the case where a company does not have job descriptions which clearly specify roles, responsibilities and the specific skills required to achieve the work, updating these documents will be part of the process. Revising all job descriptions, especially for organizations having many employees is a long and heavy task. However, gathering detailed job information for every position will pay off, particularly to support decisions related to compensation.

9.2.2 Job Evaluation

The second step in designing a salary structure is the exercise of the job evaluation which involves assessing the relative value of jobs in an organization. The value of each position will be based on the job description previously established. For this task, the C&B Manager decided to use Mercer’s International Position Evaluation (IPE) tool. The IPE is a system based on points and four core factors: Impact, Communication, Innovation and Knowledge and each of these core factors include 2 to 3 dimensions.

¹⁶ Appendix 3: C&B Manager’s Job Description

Table 4 : Mercer's International Position Evaluation

Core Factor	Dimension	Explanation
Impact	Size	Size of the company
	Impact	Level of impact towards the company
	Contribution Level	Level of contribution towards the company
Communication	Communication	Degree of communication
	Frame	Internal/external and frequency of communication
Innovation	Innovation	Degree of innovation required
	Complexity	Level of complexity
Knowledge	Knowledge	Level of knowledge required
	Teams	Team responsibility
	Breadth	Geographical scope (domestic, regional & global)

ATANASOV, Kamen. MERCER. Boost Reward Planning. 2014

By using the IPE tool, it will therefore be possible to assign points to each of these dimensions which will ultimately give out the total points for a specific job. As a result, a position class (PC) will then be matched according to the result of the total points:

Table 5 : Mercer's Position Class

Total Point Range	PC	Total Point Range	PC	Total Point Range	PC
26 - 50	40	426 - 450	56	826 - 850	72
51 - 75	41	451 - 475	57	851 - 875	73
76 - 100	42	476 - 500	58	876 - 900	74
101 - 125	43	501 - 525	59	901 - 925	75
126 - 150	44	526 - 550	60	926 - 950	76
151 - 175	45	551 - 575	61	951 - 975	77
176 - 200	46	576 - 600	62	976 - 1000	78
201 - 225	47	601 - 625	63	1001 - 1025	79
226 - 250	48	626 - 650	64	1026 - 1050	80
251 - 275	49	651 - 675	65	1051 - 1075	81
276 - 300	50	676 - 700	66	1076 - 1100	82
301 - 325	51	701 - 725	67	1101 - 1125	83
326 - 350	52	726 - 750	68	1126 - 1150	84
351 - 375	53	751 - 775	69	1151 - 1175	85
376 - 400	54	776 - 800	70	1176 - 1200	86
401 - 425	55	801 - 825	71	1201 - 1225	87

ATANASOV, Kamen. MERCER. Boost Reward Planning. 2014

Giving the example that the total points for the C&B Manager's job evaluation is 358, the class position assigned would be 53. Ultimately, this class position will be matched to an

internal salary range which will be created by the C&B Manager, based on salary market data. Therefore, in order to receive salary market data, Better Future SA would need to participate to an external HR Consulting's survey.

9.3 Mercer Total Reward Survey (TRS)

9.3.1 Online Survey

While establishing the job evaluation for all existing position titles, the C&B Manager decided to participate to Mercer's TRS in order to receive salary data from the market. The results which will be provided in return by Mercer give out anonymous information about market salaries, benefits practices as well as short and long-term incentives. With this information, the C&B Manager will be able to finish designing the salary structure and make decisions related to benefits, short and long-term incentives implementation. The survey is divided into six categories which need to be filled in:

9.3.1.1 Company Data

This section includes information about the company such as the company's name, type of legal entity, type of industry, activities, as well as information on the frequency of the salary review.

9.3.1.2 Incumbents

This section collects compensation data on all employees who can be matched to Mercer's Job Library Code. The latter is a catalog containing position titles with the explanation of specific skills for each job title. The purpose of this catalog is to match each position title of the company with a position appearing in the Mercer Job Library Code. Here is how Mercer's Job Library is structured:

1st level: **Family Titles** include all types of job industries

2nd level: **Sub Family Titles** indicate specific activities for each Family

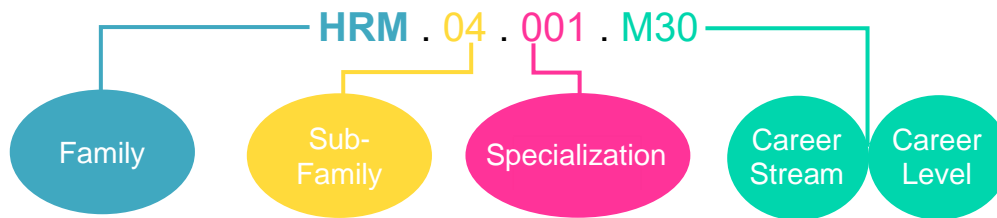
3rd level: **Specialization Titles** demonstrate all specializations for each Sub Family Titles

4th level: **Career Stream** and the **Career Level**. The Career stream displays four categories which are Executive (E), Management (M), Professional (P) and Para Professional (S)¹⁷. Then, the Career level will determine at which level, between 10 and 50, each position stands. The greater the number of the Career level, the higher the

¹⁷ Appendix 4: Mercer's Career Stream Definitions

position is situated. Hereunder is an example of a job matching with one of Mercer's Code for a Compensation & Benefits Manager, level 30:

Figure 8 : Mercer's Job Code for C&B Manager



Mercer Job Library – Catalogue of Jobs (2018)

In order to complete the section, each position title of the company must be matched with a Mercer Code.

9.3.1.3 Long-term incentives plan

In this category, it is necessary to indicate which are the long-term incentive plans exercised within the company. Since Better Future SA has no long-term incentive plans, the C&B Manager left this category empty.

9.3.1.4 Short-term incentives

In order to provide information on short term incentives, the C&B Manager analyzed the different types of variable payments that had been paid over the past three years. As a result, an “end of year thank you bonus” was paid to a couple of employees, mostly to Managers and Executives.

9.3.1.5 Benefits

In the benefits section, the C&B Manager indicated the total amount of food subsidy the company is providing to its employees.

9.3.1.6 Company cars

Since the company does not provide any company cars, the C&B Manager left this part blank.

Once the survey is completed, the results are sent back within a couple of weeks.

10. Better Future's C&B policy

The results¹⁸ received in return which include market salaries, benefits, short and long-term incentives enabled the C&B Manager to design the C&B policy for Better Future SA.

10.1 Salary Structure

To begin with, the C&B Manager analyzes the market salary data indicating the salaries assigned to each position class, making it possible to establish the company's internal salary structure. The market salary data supplied in return include three different information:

Low-end: Represents the low-end salary level for a specific level of positions.

Median: The median salary indicates that 50% of the market is below this reference point and the other 50% is above this reference point.

High-End: Represents the high-end salary level for a specific level of positions.

An important fact to remember is that a salary structure is specific to each company. Depending on the different types of position class existing within an organization, they will have to be grouped together to create an internal grading structure, designed in this case, by the C&B Manager:

Table 6 : Better Future's Compensation Structure

Internal Grade	Mercer's Position Class		Salary Range			Range	
	From	To	Low-End	Median	High-End	Low-End	High-End
A	61	64	207 000	276 000	345 000	-25%	+25%
B	56	60	165 500	207 000	248 500	-20%	+20%
C	53	55	125 000	147 000	169 000	-15%	+15%
D	48	52	98 000	115 000	132 500	-15%	+15%
E	44	47	78 000	89 000	100 000	-13%	+13%
F	41	43	66 000	73 500	81 000	-10%	+10%

Better Future's internal grading structure includes letters from A to F and each of these letters have different position levels, with A being the highest and F the lowest. As a result, A includes Executives, namely the CEO and the CFO. B brings together all four Directors

¹⁸ As part of my work, I was authorized to use Mercer's TRS survey results (2019) -- confidential documents which will not be mentioned in the bibliography.

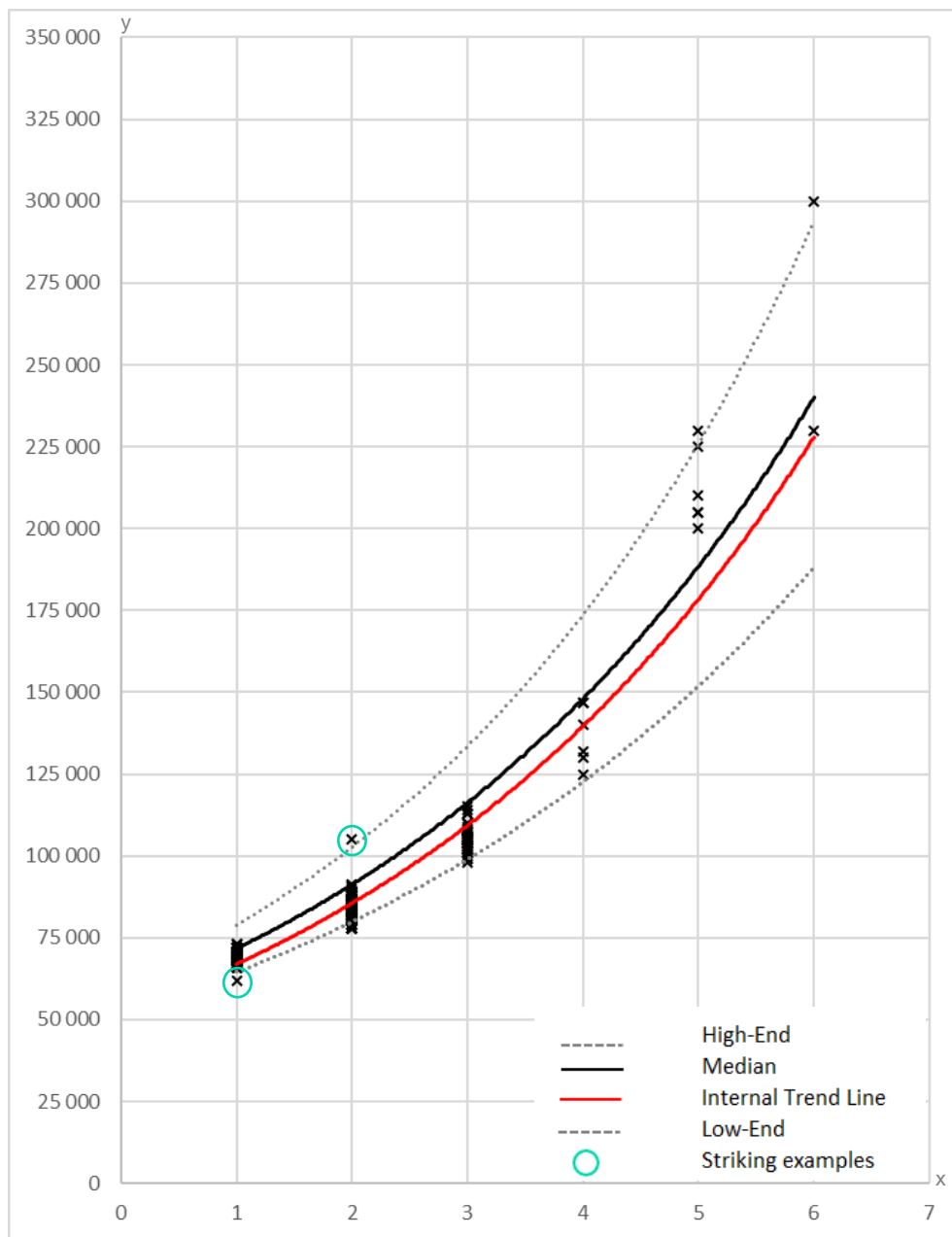
of Production as well as Senior Managers. The letter C includes Managers and positions working closely and regularly with Senior Managers. D groups all production Team Leaders, as well as some positions requiring a certain level of knowledge and experience in the field. E groups fewer complex positions. However, a high school diploma or a Federal Diploma of Vocational Education and Training is still required in order to achieve the job. Finally, the letter F includes all position that do not specifically require a diploma but possibly a driving license and some professional experience.

Regarding the salary range, the C&B Manager referred to Mercer's Total Reward results. Indeed, the median displayed in table 6 “Better Future’s Compensation Structure” is a clustering of salary medians for each Mercer’s position class. Then, the low and high-end represent salary entry level and ceiling within which an employee should ideally be positioned. In order to calculate these ends, the C&B Manager will apply a percentage that will indicate the differences between the median and the low and high-ends. These percentages are shown in the table under “Range” and vary from one internal grade to another. Since there is more chance of having a higher salary range in grade A than in grade F, the spread will be larger. The higher the rate, the greater the range between the low and high-end salary. Hereunder is how the low and high-end are calculated for grade A:

- Low-end: $276'000 \times (1 - 0.25) = 207'000$
- High-end: $276'000 \times (1 + 0.25) = 345'000$

Then, the C&B Manager's approach was to extract the salary data from the payroll software of each employee effective on January 1st, 2019 and to compare them with the median salaries indicated in table 6 “Better Future’s Compensation Structure” for each internal grade. As a result, a graph has been put together combining the low and high-ends, the median salary and the salary data of Better Future SA:

Figure 9 : Better Future's Salary Data 2019



The x-axis indicates the internal grades (A = 6; B = 5; C = 4; D = 3; E = 2; F = 1). The y-axis is the salary values in CHF and the little crosses in the table are 2019 current annual base salaries for all employees within the company. Moreover, there are four regression lines that appear on this graphic. In dashed grey are the low and high-ends, the black line corresponds to the median and finally, the red line represents the company's salary internal trend line.

It was been decided that Better Future's C&B policy is to pay at market median for the base salary component. Thus, well-defined and well-distributed salaries within an organization should be as close to the median as possible. The graph shows that the

company's majority internal salary data for grades 1 to 4, (from C to F), are below the median and some are even below the low-end. These data indicate that most of the salaries for grades C to F are extremely low. For grades 5 and 6 (A and B), the chart shows that almost all salary data are well above the median and some even exceed the high-end. This information means that salaries for these two grades are relatively high. Furthermore, the green circles represent the two striking salary inequalities mentioned previously.

At this point, it can be decided which strategy should be put in place in order to increase salaries, starting June 2019. Therefore, the C&B Manager outlines a salary review strategy and presents it to the CEO. The strategy considers two elements. Firstly, the salaries have been categorized as low, middle or high. The low salaries are the one's having a gap lower or equal to 90% to the median. The middle are the salaries between 90% and 110% to the median and finally, the high salaries are over or equal to 110% to the median. Secondly, the salary review assessment shall also be based on employee performance track. A rating has been given to each category. Therefore, according to the salary gap and employee performance rating, the matrix has been designed as follows:

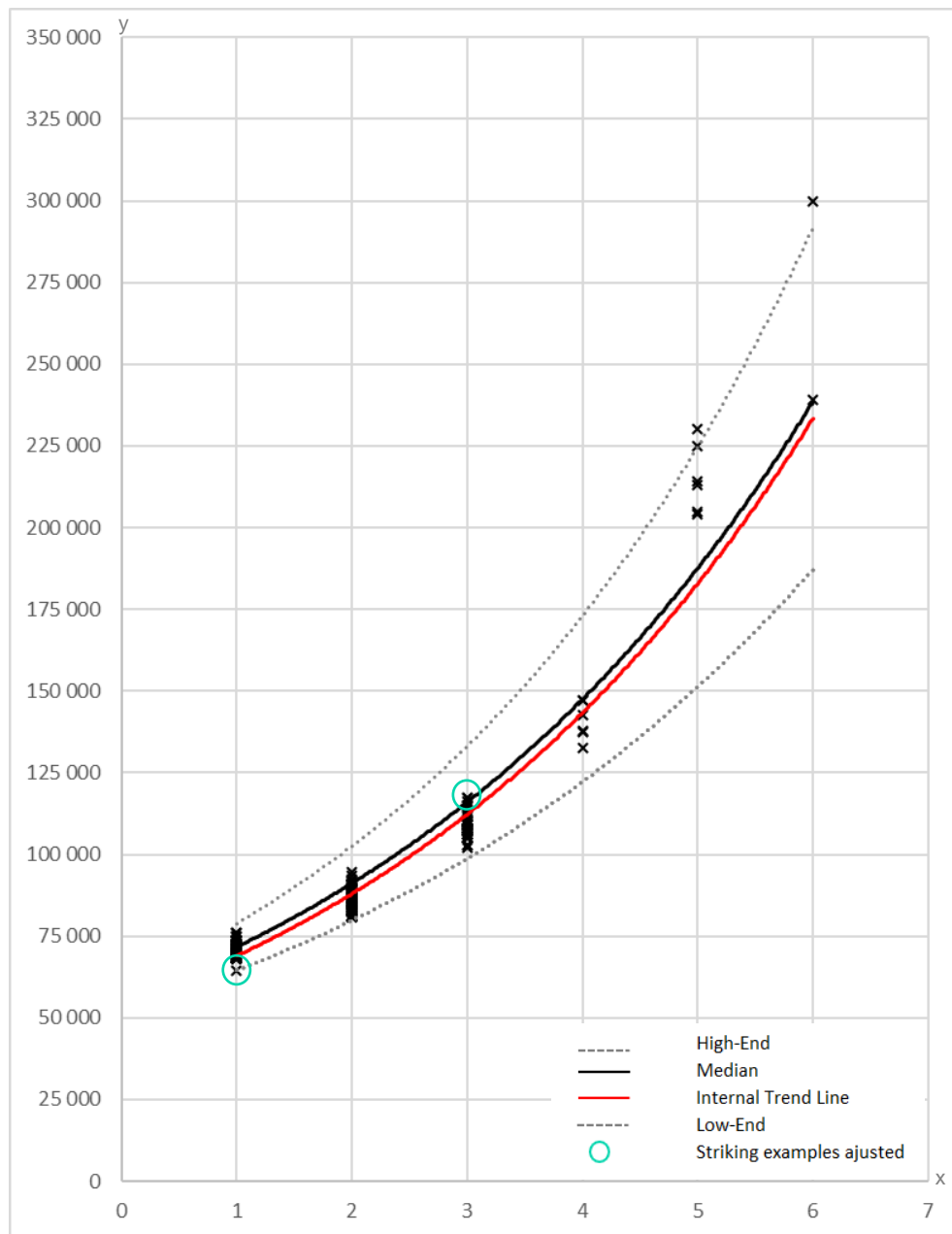
Table 7 : Better Future's Matrix

		<90%	90%-110%	>110%
		Low	Middle	High
Excellent	1	6%	4%	1'500.-
Meets Expectations	2	4%	2%	0%
Does Not Meet Expectations	3	1%	0%	0%

As mentioned earlier, it is important to consider market movements when designing a C&B policy. Since salary reviews within the company have been nonexistent until to date, employees in the category "3 ; Low" shall not be, in principle, entitled to a salary increase given their poor performance achievement. However, they still benefit from a modest salary increase due to partially catch up with 2019 market movements. Categories "2 ; High", "3 ; Middle" and "3 ; High" will not be entitled to any salary increase since their salary is competitive and their performance is not to their upmost. For the rest of the employees, they will be entitled to an increase between 2% and 6% or to a lump sum of CHF 1'500. After reviewing each employee salary based on a combination of salary

positioning and performance achievement, the chart below shows the results of the salary review:

Figure 10 : Better Future's New Salary Data – June 2019



As a reminder, the x-axis indicates the internal grades (A = 6; B = 5; C = 4; D = 3; E = 2; F = 1). The y-axis is the salary values in CHF and the little crosses in the table are the new 2019 annual base salaries for all employees within the company.

Regarding the two striking examples, the Purification Team Leader has retired which led to the promotion of the Purification Operator. Therefore, he has been positioned in grade 3 (C). As for the Recycling Truck Driver, he benefited from a modest salary increase due to partially catch up with 2019 market movements and is now touching the low-end.

The overall results show that there are less outliers and the company's internal trend line is getting closer to the market median in compliance with Better Future's compensation policy.

10.1.1 Short-term incentives

The results of Mercer's TRS survey indicate that many companies set a target bonus. Moreover, the results show that the percentage of the target bonus is distributed between "Organization Performance" (OP) and "Individual Performance" (IP) for each level. Thus, these results enabled the C&B Manager to build a short-term scheme based on target bonuses for each internal grade:

Table 8 : Better Future's Target Bonus Scheme

Internal Grade	Salary Range			Target bonus (Percentage of base salary)	Individual Performance	Organization Performance
	Low-End	Median	High-End		Qualitative	Quantitative
A	207 000	276 000	345 000	30%	25%	75%
B	165 500	207 000	248 500	15%	30%	70%
C	125 000	147 000	169 000	10%	50%	50%
D	98 000	115 000	132 500	5%	50%	50%
E	78 000	89 000	100 000	2,5%	75%	25%
F	66 000	73 500	81 000	2%	80%	20%

In order to influence the company's practices and get closer to adhocracy culture, it was decided to set up target bonuses for all employees, based on individual and organization performance. The distribution of the target bonus between the individual and organization performance will depend on the internal grades. Since the employees of grade A are directly linked with the results of the company, the majority of their target bonus will be based on the organization's performance. In other words, the more an employee has responsibilities connected to decision making of the company's strategy, the higher the percentage will be for organizational performance.

Finally, depending on the results of the organization's and individual performance of the year, an employee could potentially receive more than expected, or on the contrary, receive less, in a range of 0% to 150% payout versus the target. In other words, an

employee positioned in grade C would ultimately receive a bonus payout between 0% and 15¹⁹% of his annual base salary.

10.1.2 Long-term incentives

The results of Mercer's TRS survey indicate that the most frequent long-term incentives applied by companies are restricted shares, share units, performance shares, share units/stock and share options mainly for Managers and Executives. Since Better Future SA is a family run business, the company will not set up a long-term plan related to stock/shares. Nevertheless, the C&B Manager could potentially consider, in a year or two, designing a long-term cash plan for grades A and B. This type of plan would allow Managers and to receive an additional bonus on the long-term.

10.2 Benefits

Mercer's TRS survey results show that the most frequent benefits established by companies are retirements benefits, medical coverage support, mobile phone benefits, meals, company cars and discounts. In view of the demographic structure at Better Future SA, which includes 24% of Baby Boomers soon reaching retirement age, the C&B Manager is in favor of setting up an attractive pension plan. This plan is optional and will allow employees to increase their share of contribution each month. Moreover, to support employee value proposition and to strengthen the image of Better Future SA, the CEO has decided to provide health insurance allowance worth CHF 100 to all employees, every month and regardless their activity rate.

¹⁹ $10\% \times 150\% = 15\%$

11. Budget Forecast and Monitoring

Every year, organizations spend a significant portion of the company's budget on employee compensation and benefits. It is important to follow the evolution of the market because salaries may need to increase according to salary market movements. Thus, in order to forecast and estimate this cost for the following year, it is essential to include the cost of employee compensation and benefits. Therefore, the C&B Manager established the budget forecast in June 2019 for the following year.

In order to establish a forecast budget, salary market movements will therefore have to be taken into account. For this, the C&B Manager has used the percentage based on data provider and networking with other companies. The salary increase rate was estimated at 1.7%. To obtain the amount of the increase, it will be necessary to compute 1.7% on the annual base salary and to add this amount to the annual base salary. The example is given for the C&B Manager's salary increase, having an annual base salary of CHF 147'000.-: $147'000 + (147'000 \times 1.7\%) = 149'499.-$

Therefore, if the company considers salary market movements and decides to increase their employees accordingly, the new annual base salary will amount to CHF 149'499.- in 2020 for the C&B Manager.

As indicated previously, when bonuses are calculated, an employee may not receive the full bonus due to poor individual performance or could receive more than expected thanks to an excellent performance, for example. However, when a forecast budget is being put together, it must be assumed that the target bonuses are paid at 100%. Using the example of the C&B Manager, its target bonus is equivalent to 10% which gives a total forecast bonus of CHF 14'949.- for a full year.

When the C&B Manager established the 2020 budget in 2019, no information existed yet regarding the global health crisis (Covid-19 in 2020). As of today, the results of the economic trends are not the same as the ones pointed out in 2019:

Table 9 : Economic Trends 2020

<u>Economic Trends</u>	2019	2020	2021
Inflation	0.4%	- 0.4%	0.6%
GDP	0.9%	- 6%	3.8%
Unemployment rate	2.3%	2.7%	2.6%

International Monetary Fund (2020)

Due to the drop in GDP and the increase in inflation because of the global health crisis (Covid-19), the CEO may have to take decisions like cutting bonus share by half to ensure the survival of the company. This analysis demonstrates the importance of tracking and following market data carefully to keep this kind of forecast up to date in order to foresee the possible costs the company may have to reduce.

12. Non-Financial Rewards

12.1 Employee Performance

In our competitive world, companies must constantly improve their economic performance in order to thrive. This economic performance typically depends on the performance of each employee. This is the reason why employees can be considered to be the greatest asset of a company, as stated by Drucker (1999): *“The most valuable asset of a 21st-century institution, whether business or non-business, will be its knowledge workers and their productivity.”* Therefore, it is crucial for companies to find strategies to encourage, assess, improve and reward the performance of employees at work.

One of the most common tools used for performance management is management by objectives (MBO). MBO is a process used to define specific goals and determine how to achieve each individual objective. SMART (Specific, Measurable, Achievable, Relevant, Time-bound) is a method used in the MBO process. Every letter of the word “SMART” represents a specific criteria which ensures that the objectives can be assessed with precision. To do this, Managers can, for example, establish annual performance evaluations by determining SMART objectives. Having implemented a target bonus scheme, Better Future SA will therefore consider individual performance and pay bonuses based on performance ratings instead of distributing “end of year thank you bonuses” which do not consider employee performance. Finally, performance management will help ensure that employees perform their work in a way which contributes to the achievement of the organization's mission (Zhang 2012).

12.2 Training & Development

Nowadays, it is very common for organizations to put in place personal development plans (PDPs). The PDP is an action plan used to implement specific training and development according to employee needs. Implementing PDPs will allow employees to feel considered, invested in their job and will help increase individual performance in the future. In order to allow employees to flourish through personal training and development, various trainings will now be offered to employees such as group discussion and activities as well as eLearning within Better Future SA. Therefore, the implementation of training

and development programs will allow the Generation Y to feel considered, fulfilled as well as motivated and PDP will also attract more candidates from this generation.

12.3 Work-Life Effectiveness

Alliance for Work-Life Progress outlines the efficiency of work-life effectiveness as “*a specific set of organizational practices, policies, programs and a philosophy that recommends aggressive support for the efforts of everyone who works to achieve success both at work and at home*”. Work-life effectiveness programs are becoming more and more common in companies. According to a study conducted by Sheppard (2016), work-life effectiveness leads to multitude themes such as “*the importance of a supportive work environment, employee commitment and motivation, employee well-being and productivity, employee job satisfaction and quality work life, organizational culture change [...]*”. Allowing employees to do home office can only improve their well-being and therefore their performance. Moreover, the importance of work-life effectiveness has been all the more proven through the current pandemic.

With the aim of attracting, retaining and keeping employees motivated within Better Future SA, the company is now allowing its employees (who do not necessarily need to be at the office to accomplish their tasks) to work from home once a week.

However, work-life effectiveness goes beyond home office. Other factors must now be considered by employers such as unpaid leave, thus allowing mostly the Generation Y to feel free to fulfill personal needs like humanitarian missions for example.

13. The results arising from the C&B policy

Following the arrival of the new CEO and the nomination of the C&B Manager, an action plan was established to analyze the situation, design a C&B policy and to address burning issues from January 1st, 2019 to end of June 2019.

Table 10 : Better Future's Action Plan 2019

Action plan 2019	Jan.	Feb.	March	April	May	June
Organizational analysis						
Job description						
Job evaluation						
Mercer's TRS						
External competitiveness & internal equity analysis						
C&B policy structure & design						
Bonus scheme design						
Salary review						

A detailed review of the company's DNA and operations was undertaken. The analysis of internal and external factors made it possible to identify areas of improvement. The decrease of salary inequalities and turnover rate were the main focus in the design of Better Future's C&B policy. Going forward, and to measure the effectiveness of the C&B policy, a certain number of key performance indicators (KPI) can be used.

13.1 Turnover KPI

The purpose of the turnover metric will help determine the effectiveness of retention efforts (Sheffer, 2020). However, since Better Future SA has a large number of employees reaching retirement age, the analysis will focus only on the voluntary departures and regretted loss. At the start of 2020, the same exercise as in 2018 was carried out for year 2019 and showed that the turnover rate dropped from 6.27% to 5.5%. At the end of 2020, the goal would be to reduce this rate from 5.5% to 5%. This being said, the repercussions of the global health pandemic could potentially affect the turnover rate. To avoid false conclusions, the turnover rate should preferably be monitored over a full business cycle.

13.2 Net Profit KPI

As the goal of the C&B policy is to positively impact employee performance, and implicitly the company's performance, net profit is a good metric to monitor. In 2018, the company's revenue was estimated to be between 50 to 55 million CHF and 1 million as its net profit. By the end of 2019 and following the implementation of the C&B policy, the company saw a 6% improvement in the net profit. The goal is to further increase net profit by 12% over 2020. Due to the unforeseen global health crisis, and a forced closure for 3 months, it is however unlikely that this target will be achieved.

13.3 Qualitative improvement

From a qualitative point of view, improvements have also been observed. Specifically, the HR department received positive feedback from employees. The mission, visions and values of the company are now well-defined, allowing employees to better identify themselves to the company's purpose. Furthermore, the needs of different generations have been taken into account allowing to improve individual well-being. As a result, the company witnessed an increase in employee motivation, a decrease in sporadic sickness leave, delays and turnover. There has also been an increase in jobs applications from qualified external candidates, which is a positive development for the future of Better Future's workforce.

14. Conclusion

The aim of this thesis was to demonstrate the importance of a C&B policy by guiding readers through the analysis, design, implementation and review of such a policy for the case of Better Future SA.

A C&B policy shall be developed in the context of each organization given environments and in alignment with its mission, vision and core values, also known as the company's DNA. Such an inspired C&B policy design will support company's ultimate business performance goals and shape expected employees' behaviors.

Obviously, aside adherence to the company's overall objectives, detailed analysis of internal and external factors affecting company organizational setup and workforce is fundamental. Over six months analysis of the design and implementation journey, the C&B Manager was able to:

Harmonize and standardize job descriptions which represents a strong point in understanding relative weight of job roles and responsibilities throughout the organization. A side-benefit of this project step was to deepen understanding of perceived roles by the employees themselves versus their expected roles from their management.

Evaluate job roles with a standard methodology which is focusing on the job itself rather than the position holder. Usage of defined factors and dimensions clearly contributed to reduce subjectivity and perception and support the design of the 6 internal grades (A, B, C, D, E and F).

Assess Better Future's current salary competitiveness by participating in a compensation survey. Based on the results, the C&B Manager:

- Shaped an external competitive salary structure which will also be a key tool in the future to pilot salary budget.
- Identified and assessed internal equity issues.

Build a salary structure allowing to address gaps and inequalities. Aside pure salary gap situations, individual performance ratings were also taken into consideration to review magnitude of the effort. Thanks to this review, the company has less outliers and overall pay trend is getting closer to the market median practice.

Establish short-term incentives (bonus scheme) so as to foster a performance culture and align employees with the company objectives. Moreover, a feedback culture is expected to be reinforced.

Implement two key benefits to offer employees the possibility to contribute more in their pension saving plan and to financially sponsor part of the cost of employee health insurance.

The next challenges for the C&B Manager starting July 2019, which is beyond the scope of this study, is to:

- Review of intermediate objective setting
- Assess performance and adjust calibration of ratings

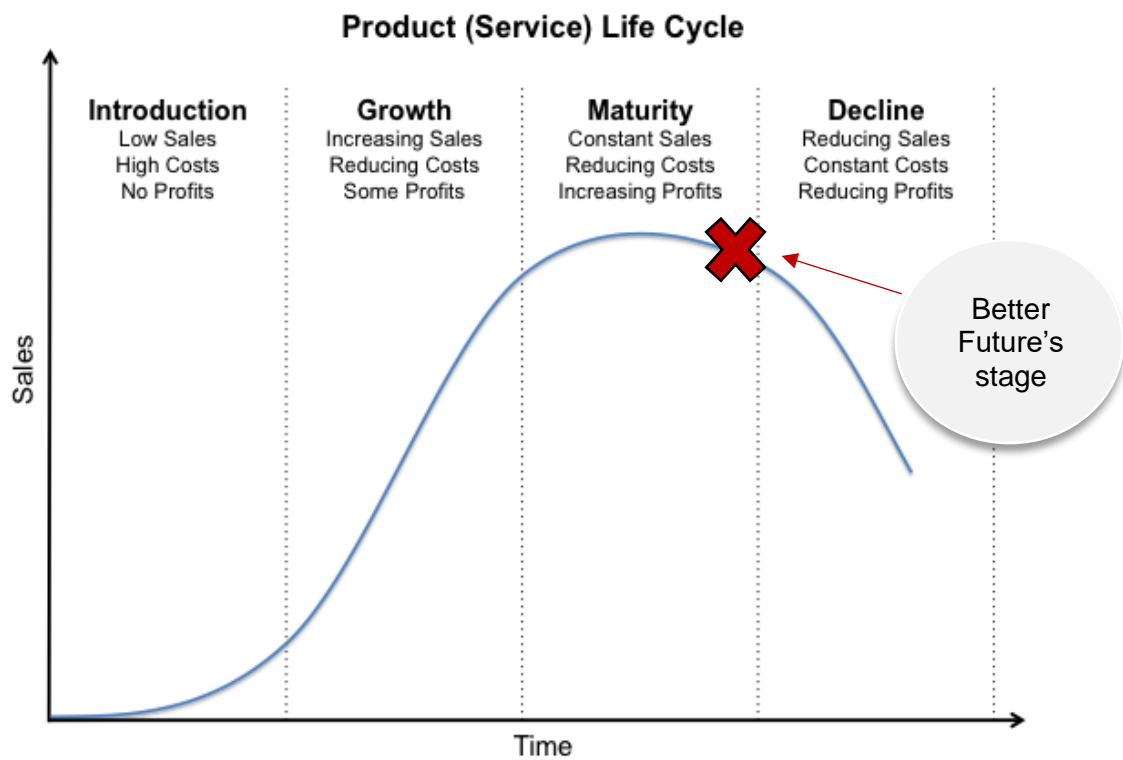
All elements put together, Better Future SA was successful in attracting new talents, motivating the overall workforce and retaining key elements. The turnover rate materially decreased, and the company's overall net profit was lifted-up.

Appendix 1: Maslow's pyramid of needs



BBC Magazine (2013)

Appendix 2: Life Cycle Chart



Morgan Melnyk Marketing (2016)

Appendix 3: C&B Manager's Job Description

Mission: The Compensation & Benefits Manager will ensure the design of a new C&B policy within our company in accordance with the company's DNA. The selected candidate will take the decisions necessary for the effective implementation of the policy and oversee and monitor its results.

Competence & Skills:

- Bachelor's or master's degree
- 2 to 3 years of related experience required
- Previous experience in the implementation of a C&B policy
- Excellent MS office skills
- Solid analytical skills

Responsibility:

Strategy C&B:	Establish C&B policies in order to attract, maintain and motivate employees
C&B Design:	Design an effective C&B policy
C&B Process:	Establish and monitor C&B processes (bonus, salary review, benchmark)
C&B Budgeting:	Forecast and prepare C&B budget
HR Networking:	Maintain relationships with external compensation consulting companies

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Appendix 4: Mercer's Career Stream Definitions

Grade	Definition
E	Groups heads of organization and heads of function. Provide strategic vision and direction. Aim to achieve objectives directly linked to the performance of the company. Spend most of their time overseeing the area of responsibility.
M	Groups managers and supervisory professionals on tactical and operational activities in a specified area. Levels in the management career path typically include three or more direct reports. Majority of their tasks is spent overseeing the area of responsibility, planning, prioritizing and/or directing employee responsibilities.
P	Groups individual employees with responsibilities in a professional or technical discipline or specialty. At this level, employees can direct the work of lower level professionals. Most of the time involves overseeing the design, implementation or delivery of processes, programs and policies using the specialized knowledge and skills generally acquired through advanced education (3-4year university degree)
S	Groups individual contributors who provide support or services in daily business activities. Most of the time is spent providing support services or activities, usually under supervision. The job usually requires a high school diploma or vocational training of 1 to 2 years.

Mercer Job Library – Catalogue of Jobs (2018)

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