Cost ≠ value

Issues with the total remuneration approach.
By Dr Mark Bussin, Andrew Marriott and Elmien Smit

In many ways, South Africa is a unique country. With widespread globalisation, organisations need to manage employees with dissimilar cultures, races, ethnicities, nationalities, religions, genders and generations, and all instances of prejudice need to be eradicated. As such, one can expect to find unique remuneration package needs. Firms face the challenge of motivating their employees to put forth the appropriate amount and type of effort.

It is interesting how many employers have the wrong perception about total remuneration packages since it is pronounced that total packages are “dead” following the recent changes in the South African Taxation Legislation. This can only be true if individuals are under the impression that employers move to total packages for tax purposes. In order for South African organisations to become an employer of choice, they need to take into account employees’ choices in terms of their total packages. Giving them what they perceive as valuable and important in their lives will ultimately lead to happy employees and happy employers.

For the informed, the purpose is to align remuneration with best practice, giving the employee more flexibility. Total packages also serve to attract individuals to an organisation and to retain a skilled workforce in a labour-competitive environment.

The critical rewards, remuneration and benefits, both direct and indirect, enjoyed by the employee. The most effective way of maximising the perceived value of a package of goods is one faced by marketers daily. The established technique for measuring this is a technique called conjoint analysis. It can be very effectively applied to the remuneration problem.

Importance of choice

The most effective way of maximising the perceived value of a remuneration package is to provide a wide menu of options and let the employee choose which they want. This menu should be extensive and it should be possible to change items on a reasonably regular basis as employees’ preferences change and, as they do, their ideal basket will change.

The issue with this approach is that it’s expensive. The company is arguably works best for are those with a large number of relatively similar employees who have a similar set of preferences. It’s been used quite frequently in large professional services firms, for example.

If you don’t want to do this, the second best approach is to provide a series of menu options which bundle benefits in a way that appeals to various segments within your workforce. The great thing about discrete choice experiments such as conjoint analysis is that the results they produce are differentiated – that is, that cluster analysis is possible using the data.

Communicating benefits to employees

The issue of the difference between cost and perceived value of benefits makes communicating benefit value difficult. If you communicate a cost to employees but it is not something that they would have chosen, then there is a real danger that the employee will view it as a cost. Companies can often purchase goods and services at considerably reduced prices than employees can. If we take Waldofgel’s 10 – 33% estimate then, if this company can purchase the goods on behalf of the employee at this sort of discount, the package could be more valuable to the employee than just giving a bigger salary.

How to measure what is a valued package

Techniques exist for measuring how various components of a package are perceived but they’re rarely used by employers to measure perceived value of benefits packages. They should be.

The class of problem that you need to understand is termed discrete choice: that is you have a maximum total resource to allocate and having more of one thing means less of something else. The only way of measuring preferences is to replicate this trade-off.

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