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Compensations and Benefits

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Compensations and Benefits

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Introduction:

Compensations, including salaries and wages, play a prominent role in the lives of individuals and organizations. They are crucial in enhancing performance levels and increasing the productivity efficiency of workers. The topic of compensations paid to workers within an organization remains important and continues to receive significant attention from professionals in the fields of economics and management, whether in the public or private sectors. This is primarily due to the direct impact compensations have on the living standards of workers as their primary source of livelihood, as well as their significance to the state and employers, considering that compensations represent a considerable portion of the cost of labor in most organizations, regardless of their types.

A prerequisite for improving performance is that workers receive a wage commensurate with their contributions to the organization, considering the various capabilities and capacities required by the job. Additionally, salaries and wages are increasingly of interest to individuals as they represent the primary means to satisfy their diverse, especially material, desires. To understand the general concept of compensations, it is necessary to clarify some of the terms included in the concept of compensations, namely:

Direct Compensation: Cash amounts paid by the organization to its workers in return for the contributions they make to it. They are termed "direct" because their payment is directly linked to the level of performance and effort.

Base Salary or Wage: It represents the largest portion of the compensation received by workers in the organization and is based on the quantity and quality of production or performance provided by the individual during their employment with the organization.

Indirect Compensation: This refers to all the monetary and non-monetary benefits and returns provided to workers by the organization they work for. These benefits are provided to

them because they are members of the organization, and therefore, their provision is not directly linked to performance and activity.

Direct Additional Compensations: These are cash amounts paid to workers in addition to their basic salaries and wages. They include overtime pay, cash bonuses, and other similar benefits. The organization provides this type of compensation to workers in exchange for additional work assigned to them, outstanding work they have performed, or specific qualities that distinguish their work from other tasks.

Importance of the Research:

The importance of this research lies in its exploration of the topic of compensations, which represent the most effective tool in the hands of the human resources manager. Compensations enable the manager to perform all HR functions, starting from organization, through recruitment, reducing turnover rates, succeeding in training plans, and concluding with planning the future career paths of workers. Consequently, this aids in achieving the organization's strategic goals by ensuring the satisfaction of the most important element of the organization.

Research Objectives:

The research aims to shed light on the importance of compensations in their various forms and how to manage them optimally to achieve the organization's objectives and reduce its costs. It also seeks to capitalize on this by increasing employee satisfaction and motivation.

Financial Compensation¹:

Financial compensation is a function of human resource management that deals with all aspects of compensation within and outside the organization. It is defined as:

¹ Omar Safi Aqly, Contemporary Human Resources Management, Advanced Strategy, Dar Wael 2023

"All financial returns obtained by human resources from the organization through their work as members therein. They take two forms: cash amounts (direct compensation) and non-cash benefits (indirect compensation) in the form of additional functional services provided by the organization for free or contributing to covering part of their cost."

There are also non-financial compensations, which are extremely important for individuals, including psychological and social needs such as good treatment, job security, peace of mind, workplace safety and health, growth and development opportunities, among others. These needs are as important as physiological needs because they contribute to psychological and moral satisfaction.

Moreover, they are achieved through the physical, psychological, and social work environment.

Here are the general objectives of compensations:

1. Attracting the best human resources to work in the organization.
2. Retaining the best human resources in the organization.
3. Motivating and encouraging workers to achieve the highest level of performance.

The relationship between compensation and work motivation²: There is a direct relationship between the compensation received by individuals from the organization and their motivation to work.

The relationship can be represented as follows:

² Abdul Bari Durrah, Zuhair Tamim Al-Sabbagh, Human Resources Management: In the Twenty-First Century: 2023.

Individual goals and expectations → Level of performance within the workplace → Evaluation of this performance

Setting new goals and expectations and the motivation to fulfill them through performance

↓
Obtaining compensation corresponding to the level of performance

↓
Feeling of fairness when comparing compensation with performance and comparing it with others
←
Feeling of satisfaction as a result of fairness

The relationship between compensation and work motivation can be summarized as follows:

1. Work motivation depends on the individual's sense of fairness in comparing their compensation with what others receive in the workplace.
2. Work motivation also depends on the individual's satisfaction with the compensation they receive, whether it is internal or external in nature.

Salaries and wages³: One of the most important basic components of compensations.

Their importance stems from several reasons, including but not limited to:

1. Salaries and wages encourage individuals and motivate them to enhance performance and productivity.
2. They help alleviate the psychological stress and tension of individuals by financially compensating them for their investment of capabilities in work.
3. Salaries and wages represent the only tangible return that can be measured for individuals' investment of their capabilities in work.

Objectives of salary and wage determination policy:

This policy aims to achieve several objectives, including:

1. Attracting and obtaining qualified human resources.
2. Retaining human resources within the organization and preventing their migration elsewhere.
3. Achieving fairness in determining and paying salaries and wages commensurate with work.
4. Encouraging and motivating workers towards outstanding performance with rewards for such performance.

³ Reference previously mentioned, page 347

Principles of Salary and Wage Determination:

The human resource management in the organization should consider the following principles when determining salaries and wages for its workers, including:

1. Principle of Justice: This principle emphasizes the necessity for wages or salaries to be fair, meaning they should be based on fixed and objective criteria that apply to all workers without discrimination. This principle represents the psychological aspect of wages and salaries.

2. Principle of Equality: This principle implies that there should be equality in determining wages and salaries for jobs and tasks that are similar or comparable in responsibilities and duties. This requires adopting objective criteria to determine the value and importance of each job compared to others. This principle represents the objective aspect of wages and salaries. "The International Labour Organization has recognized equal pay for work of equal value in its constitution."

3. Principle of Sufficiency: This principle means that wages and salaries should be sufficient to assist the individual in meeting various life requirements and multiple obligations. This requires considering some criteria when setting and determining wages and salaries, such as the cost of living, the inflation rate, and other criteria, ensuring the principle of sufficiency is achieved. This principle represents the economic aspect of wages and salaries.

Article 23 of the Universal Declaration of Human Rights⁴ states: "Wages must be sufficient to provide a decent standard of living for the worker and his family."

For salaries and wages to be effective in motivating workers to improve their performance, these workers must realize that the organization pays them fair compensation for their performance and improvement.

⁴ Al-Faris, Sulayman, et al., Human Resource Management 2020.

Additionally, workers should realize that the wages and salaries they receive correspond to or are commensurate with their abilities, experiences, and skills.

The best way to achieve this is by using job evaluation, which helps to establish consistency between the wage and salary structure within the organization and those in other organizations and labor markets.

Basis of Wage and Salary Payment:

There are two fundamental bases from which all methods of wage and salary payment stem: time-based wages or salaries and production-based wages or salaries, which some refer to as incentive wages.

Frist: Time-based Wages or Salaries:

Under this method, individuals receive their wages or salaries based on the time they spend in official work, such as per hour, per day, per month, or per year, and the wage or salary does not change with changes in production quantity.

In general, paying wages and salaries based on time is found to be impractical because the lack of differentiation between productive and non-productive individuals eliminates the motivation factor in work, weakens morale, and is recommended for use in the following cases:

- Difficulty in determining an individual's production quantity.
- Inability to determine the extent of an individual's contribution to production work.
- When quality is important regardless of the time spent on work.
- When work is accompanied by frequent holidays that do not contribute to the productivity of workers.
- When materials are high in value, and the devices used are delicate and sensitive, making them prone to damage if operated quickly and beyond their capacity.

Advantages:

- Easy to implement.
- Enhances cooperation among workers and does not evoke jealousy, as it treats everyone equally based on time.
- This system ensures a stable income for workers that does not change with their productivity, generating a sense of comfort and peace of mind among them.

However, there are several criticisms of this system:

- It does not create a strong incentive for efficient work because it equates compensation between active and inactive individuals.
- It does not encourage innovation among competent workers as they are equated with ordinary workers.
- The real cost of work is not ensured because production may vary significantly while wages or salaries remain unchanged.

Second: Production-based Salary and Wages (Incentive Pay):

Wages based on production are typically paid to workers in tangible production activities. In this system, an individual receives compensation based on the quantity and quality of their production. They earn additional returns if their production quantity increases. However, they bear the burden of reduced production with the establishment. Payment is either by specifying a single wage for the produced unit or by determining it based on the time allowed to produce a certain number of units.

Production-based pay is used in the following cases:

1. If the production quantity can be determined.
2. If it is possible to determine the individual's contribution to production.
3. If the quantity of production is more important than quality.

4. When it is difficult to establish an accurate system for controlling and monitoring production.

5. If there are no malfunctions in the work.

Advantages:

- Acts as a strong incentive for efficient work, benefiting workers through increased wages and benefiting the company by boosting its production due to increased efficiency.
- Helps foster innovation among workers, improving their work style to increase production and, consequently, the wages they receive.
- Leads to the satisfaction of the management by relieving them of the responsibility of achieving optimal production, as all workers strive to maximize their productivity to increase their wages and, consequently, their income.
- Allows for the estimation of labor costs.
- Achieves fairness in wage payments, as each individual receives compensation according to their work and effort.
- Assists the establishment in reducing each production unit's share of fixed costs.

Criticisms:

1. Difficulty in establishing measures or criteria to assess the production of all tasks, especially administrative ones that require mental effort, which are difficult to quantify.

2. This basis for paying wages is suitable only for competent workers. There may be a category of workers who have a desire to work and exhibit good behavior, but their abilities and potential do not allow them to increase their production.

3. It may create jealousy and envy among some workers towards those with high efficiency.

Wages are determined based on production through two methods:

First: Individual Production-Based Wage Determination:

An individual earns wages based on the number of units they produce individually. The amount of income they receive from their production varies depending on the method used to calculate their wage, which can be one of the following:

Standard Piece Rate:

The wage is calculated under this method using one of the following approaches:

- Piece Rate: A specific amount is determined that the individual receives for each unit produced. For example, if the rate per piece is SAR 5 and the total units produced during the daily working hours (8 hours) is 10 units, then the wage received would be calculated as follows: $10 * 5 = \text{SAR } 50$.

- Time per Piece: Here, a standard time is defined within which the piece or unit should be produced, based on motion and time studies. For instance, if the allowed standard time for producing the piece is 10 minutes regardless of the actual time spent by the worker, and the worker produces 60 pieces during 8 hours, then the wage is calculated as follows:

$$10 * 60/60 \text{ minutes} = 10 \text{ hours.}$$

Thus, the individual will receive payment for 10 hours instead of 8 hours, which represents the actual working hours, meaning they earned an additional 2 hours of work.

Variable Piece Rate:

Under this method, the wage is calculated based on setting two rates for each production level achieved by the individual. For example:

The wage for producing a piece is SAR 2 for up to 49 pieces.

The wage for producing a piece is SAR 2.5 for 50 pieces and above.

This method is characterized by the following:

- It provides a strong incentive for increased production.
- It benefits establishments with high fixed costs.

Second: Group Production-Based Wage Determination:

Wages for workers are determined based on setting a standard production figure, which serves as the production goal or target for the establishment. Upon reaching or exceeding this figure, an additional bonus is distributed on top of the wages to all workers who contributed to achieving the production goal, according to criteria set for this purpose, such as each individual's job level or their contribution to achieving the desired goal. This method is suitable when production and goal achievement are the result of the contribution of all workers.

For example: A group consisting of five workers is tasked with producing a certain commodity. The set standard production figure for this group is 75 pieces or commodities per day, and the average wage per piece or commodity is SAR 5. The basic hourly wage for the five workers respectively is: SAR 8, 7, 6,5,10. If the group produces 90 pieces during the day over 8 hours, what is the amount of the bonus and the wage that each worker will receive?

$$\text{Group earnings} = 90 \text{ pieces} * \text{SAR } 5 = \text{SAR } 450$$

$$\text{Workers' wages} = (5 * 8) + (6 * 8) + (7 * 8) + (8 * 8) + (10 * 8) = \text{SAR } 288$$

$$\text{Collective bonus} = 450 - 288 = \text{SAR } 162$$

The amount of collective bonus can either be distributed equally among workers or according to the wage each worker receives, or based on another criterion.

This method stands out as a means to foster teamwork and collaboration among workers, encouraging efforts towards achieving production goals.

Certainly, incentive wage payment methods work to motivate workers to increase their productivity, benefiting both the establishment and its workers collectively. However, achieving this requires implementing a sound incentive wage plan, considering several factors:

- Clarity and simplicity, enabling all stakeholders to understand it.
- Ensuring a certain minimum wage not less than the wage received by the individual before the new plan's implementation.
- Involving workers in its development through the labor union.
- Aligning the wage amount received by the individual with the amount of production they contribute to proportionally.
- Benefiting the largest number of workers possible.
- Making the incentive bonus tangible so that individuals feel adequately incentivized to increase their efforts and productivity.
- Stability to the extent possible, ensuring a steady income for competent workers.

In conclusion, regarding the foundations of payment of wages, we shall refer to some of the methods developed by some of the pioneers of management to pay Incentive Wages, especially the Principles of Scientific Management: Taylor, Halsey, Rowan, and Gantt... as examples of clarification.

Taylor:

Taylor set a standard for production that must be reached, and set a wage for each piece produced in light of the study of motion and time. If the worker does not reach the specified standard, he will be given a wage less than the standard wage, as follows:

The production standard shall be 20 pieces per day.

The wage per piece if the production index reaches SAR 5.

The wage per piece if the production index does not reach SAR 4.5.

The advantage of this method is that it encourages workers to increase production. Therefore, it suits productive individuals, but it is criticized that it does not guarantee a specific limit of wages for the individual, which makes him worry about the lack of stability of their income.

Halsey:

Halsey developed a Formula on the basis of which the wage is calculated. The following is the Formula:

Due Wage = Hourly Wage * Time Taken + Percentage Wage for Time Saved. The advantage of this method is that it encourages workers to save time, as the wage increases accordingly. It also guarantees them a minimum wage that is the wage for the time spent by the worker at work. However, it is criticized that it allows an employer to share with the workers the effort they have saved.

Rowan specified a standard time for completing task. If the worker does not finish work on time, he shall be entitled to his normal wage without any deduction. The following is the Formula for the due wage that Rowan established:

Due Wage = Hourly Wage * Time Taken + (Time Specified - Time Taken / Time For work) % * Due Time Wage.

The advantage of this method is that it gives a worker an opportunity to benefit from the saved time, and at the same time guarantees a minimum wage. However, it suffers from the same defects as the previous method (Halsey), and the following is an illustrative example:

Suppose that the hourly wage of an worker is SAR (5), and the standard time for completing the task is (8) hours, and the worker completed the task in (6) hours, what is the wage he deserves?

$$\text{Wage} = 5 * 6 + (8 - 6 / 8) \% (5 * 6)$$

$$30 + 25 / 100 * 30 = \text{SAR } 37.5$$

Assuming that the worker finished work in 4 hours, the rate shall be 50% instead of 25%.

Structure of Basic Salaries and Wages:⁵ means a general framework includes the rules and controls according to which the salaries and wages of workers in organizations are paid.

It is generally accepted that there are a number of structures that are commonly used. An organization can apply one or more according to the nature of its work and functions. These types are as follows:

1. Knowledge-Based Pay (KBP)

It is designed so that the Human Resources Management prepares a table of existing jobs in the organization, and identifies next to each job the knowledge that contributes directly to raising the level of performance of the worker and their effectiveness, as whenever he learns new knowledge, this means that his performance has improved and his pace and ability to achieve has increased. Specific goals of his job.

Usually, direct financial compensation is determined for each knowledge to which the individual is entitled when he learns and acquires it. In this case, the salary and wages increase with the increase and diversity of the individual's knowledge specific to their job and other jobs to which he may be promoted in the future.

The following is an example that explains the same: Faculty Members in universities are usually classified according to their academic rank into three categories: Assistant Professor (Professor in some universities), Associate Professor, and Professor. In order for a faculty member to move from one academic rank (category) to another higher, he must do various scientific research and studies (called Scientific Production) during a specific period of time, through which he acquires more knowledge in their field of specialization, which improves the

⁵Aqili, Reference previously mentioned, Page 502

level of their scientific knowledge, which is reflected positively on the level of their teaching to students.

In general: According to this Structure, the more an individual learns new knowledge, the higher his salary

For example: If he learns a new language, his salary will increase, and if he learns a new computer programming language, his salary will increase, etc.

Usually, this Structure is used for all work and jobs and characterized to encourage the Human Resources to ongoing acquisition of knowledge in the interest of the organization and their interests. It also helps to make the organization a Learning Organization

2. Skill-Based Pay (SBP)

It is designed through the following two methods:

A - Broadening the skill through its diversity:

The Structure is designed according to this method by classifying the organization's jobs into groups that are similar and homogeneous in nature, for example: a group of engineering jobs, a group of maintenance jobs, a group of office and secretarial jobs... etc. A set of skills necessary to perform its functions is determined for each of them, and financial compensation is determined for each skill.

When a person is appointed to a job within one of the groups, he is tested to determine the skills he possesses, and his salary or wage shall be determined in light of the compensation allocated to each skill. Over time, the salary increases as the individual acquires a new skill, and the increase shall be in the amount of the financial compensation specified for it.

The following is an explanatory example for the same:

Skill-Based Pay (SBP)

Direct Compensation	Skill Type	Direct Compensation	Skill Type
1500	Electronic Automation	900	Meeting Organization
1300	Office Organization and Planning	800	Write Meeting Minutes
1100	Computer Typist	700	Report Draft
1000	Conference Organization	600	Use the Internet

B. Depth of Skill:⁶

The Structure of Salaries and Wages is designed according to this method by preparing a table of jobs for which a structure is to be designed, and next to each job the basic skill required to fill it is determined. For example: a car driver in a transportation company must have the skill and style of driving a car, and the driver's salary increases as his career progress

⁶ Reference previously mentioned, Page 514

increases, and his practice of this skill makes his level of performance more qualitative and distinguished.

We find that the increase in salary or wage under this Structure is linked to career advancement and practicing the same skill required for each job or work.

3. Job Classification- Pay

It is designed through two processes:

A. Determine Job Structure: The circumstances of any establishment do not allow paying a separate wage or salary for each work or job, to the effect that the matter requires combining more than one job and giving them one wage and salary that includes all of them, because specifying a wage or salary specific to each work makes the structure of wages and salaries very sophisticated.

Therefore, it was agreed to divide the works or jobs that were evaluated into groups, and the group was called a category or degree, so that each category or degree includes a group of works or jobs that are close in importance, or in the sense of the jobs that received close evaluations.

The benefit of this matter is to spare the administration the hassle of determining a wage and salary for each job separately.

B. Determine a Salary or Wage for each Category:

After determining the job structure and distributing the work to the categories after evaluating and arranging them according to their importance, a wage or cash salary is determined for each degree or category and for the jobs it includes, provided that the minimum and maximum for the wage or salary category shall be determined. Therefore, in light of the regulations and laws and some basic considerations such as the level of wage and salary prevailing in similar establishments, the costs of living, the capabilities of the establishment...etc.

What is the difference among Wage Survey, Curve, and Structure?



Wage Survey: is a process of collecting information from different Wage Systems in a specific city, specific industry, or specific country that shall be conducted by organization before commencing to prepare Wage Curve. Moreover, organizations shall benefit from such Information in determining the extent of consistency of its Wage Structure with Wages prevailing in the industry or State.

Such Information could be obtained from Central Agency for Organization and Administration or Journal of Economics published by Banks or through working groups of Organization.



Wage Curve: After completion of evaluating Jobs along with surveying Wages by Organization, preparing Wage Curve could be commenced by drawing points that have been obtained through the process of evaluating and comparing it with Basic Wage «Monthly Wage» in order to determine the general direction of Wage, then determining the jobs that shall obtain rates of Wages «lower or higher than the previous rates.



Wage Structure: Is a natural extension of Wage Curve as well as it reflects the Wage range within each financial degree, similar jobs in terms of degree, category, or points shall be placed in one group, in addition, it had been previously discussed... etc.

Direct Compensations:

In addition to Salary and Basic Wage that shall be paid by organizations to Human Resources that shall work with it, it shall pay other Direct Financial Compensations in the form of financial incentives, the purpose of it shall be to encourage such Resources as well as to create motivation with them in order to work hard, actively and in a high level of effectiveness,

it has been named direct given the fact that obtaining it by an individual shall be associated with its work, effort, and activity.

We will explain the most important of such direct incentives that shall be categorized within two types:

First: Individual Incentives: so named, as it shall be paid to individual on the basis that it is an independent work unit, in view of its effort and the effectiveness of its performance solely, and the most important of such Incentives are the following:

1. Periodical Increment (Increase):

Periodic Increase paid to workers shall represent a part of direct compensation that shall be paid to them against their contributions provided by them to the organization.

It is: a sum of money that shall be paid to the individual each specific period of time as an increase to its salary or its basic wage, as well as increment shall be usually paid if the individual has achieved the two following terms:

1. A specific level of performance and efficiency in its job or its work, notwithstanding its level of performance in the previous years, each period of time in which increment shall be entitled is an independent unit from previous periods.

2. Passing the periodic period of time specified to grant the increment that may be one year or more, therefore, it could be argued that obtaining an increment by the individual shall make it maintain it throughout its employment service in the organization, furthermore failing to obtain a new increment by it shall not make it lose the previous increments that had been obtained by it. Moreover, the amount of the increment shall be paid monthly along with paying the monthly salary or wage as it shall be deemed a part of it...

2. Financial Bonus:

An amount of money that shall be paid to the individual distinguished in its performance, giving in its work or its job as well as it shall be conducted in accordance with the two following standards:

1. If the individual has achieved a specific performance rate that shall refer to its proficiency level in its work.

Such as, obtaining excellent evaluation of efficiency that shall be entitled to 1000 Currency Unit.

Obtaining very good evaluation of efficiency that shall be entitled to 800 Currency Unit.

Obtaining good evaluation of efficiency that shall be entitled to 500 Currency Unit.

2. If the individual has performed a distinguished work such as solving a problem, developing something in the work that has brought benefit to the organization.

Financial Bonuses shall be usually paid at the end of the year as well as it shall not be deemed a part of Salary or Wage, it shall be paid once upon achieving distinction. Furthermore, Bonuses obtained by the individual in the previous years when its performance was high shall not be withdrawn for the following years when its performance will be average.

For the success of the system of Bonuses, provision of the following aspects shall be usually required:

A. Relate obtaining the bonus to the level of the performance, the effort of the individual along with what shall be achieved by it from results and achievements, such matter shall require setting specific standards of performance that shall be achieved and exceeded by the individual.

B. Make bonuses levels meaning that it shall be graded in height with the height of the level of performance.

3. Wage for Over Time:

An amount of money that shall be paid to the individual in addition to its basic salary or wage along with its other compensations against assigning it to work for over time beyond the official working hours whether such work is included in its original work or not.

It shall be deemed as an encourage and motivation to the workers in order to work beyond the official working hours and when the organization need them in the event of existence of extra pressure of work with it, working in overtime is a voluntary work and not obligatory.

It is an incentive not a Bonus as well as did not fall within Salary or Wage considering that it permanent just like incentive bonuses.

Second: Group Incentives:⁷

It shall be paid based on the effort and distinction of the group in the performance, therefore, the unit of paying financial incentive is an effort of the group or the team of work team not the effort of the individual solely.

As well as it has multiple forms, we will discuss its most common in use:

Profit Sharing:

A pre-specified percentage deducted by the organization from its achieved profit at the end of the year in order to be distributed to the workers in it.

Such Principle is based on Philosophy and its content: is that profits that shall be achieved by the organization at the end of work period that is the year, rather it is the reflect of the group effort that had been done by Human Resources in work thought the year. Increasing this effort shall mean increasing of the profits of the organization corresponding it increasing of the incentive that will be obtained by Human Resources, therefore, Profit Sharing is a

⁷ Dorra, Abdel Bari Ibrahim, Al-Sabbagh, Zuhair Naeem, Human Resources Management in the twenty-first Century, Regular Approach, 2020 A.D

financial incentive of the group that shall encourage the workers to cooperate and works in team.

It shall be taken into consideration throughout the period between making the effort and obtaining the financial incentive by the workers and that shall impair its preparatory force.

Gain –sharing of Costs:

It is a percentage of financial gain achieved by workers in the cost of production by their controlling and reducing it by them as well as the organization shall distribute it to them at the end of the year, after calculating the amount of the archived gains. Sharing here is a group incentive that shall encourage the all to reduce the costs of production. However, the result of practical application of such incentive on the organization level for all was established that it is ineffective. As what shall be achieved by a team or a department from gains may be lost by other department due to the lack of efficiency of its performance. For this reason, such incentive is applied on the partial level (Work Team or Production Lines).

For success of approach, the following shall be achieved:

- Operational costs shall be under the control of work team.

Such as: damage of a machine due to its old not related to the team.

- Provide the confidence with the workers that Administration will be honest in calculating the gains.

- Give freedom to team work in performing its tasks.

- Provide physical, psychological, and work environment.

- Provide equipment with high level of quality and modernity.

This incentive is distinguished by obtaining it by workers even if the organization did not achieve a number of profits.

Giving ownership of Shares to Workers in the organization: Some organizations shall provide a part of shares to the workers in it at the end of the year instead of distributing a percentage of its achieved profits at the end of the year.

Meaning that giving ownership of organization shares to workers (over the time) and their ownership of it will be increased that shall make them feel that they are owners and not parts as they shall own a part of the capital of the organization and that shall help to establish their belongingness to the organization along with their love to work in it.

Eligible Profit Sharing: and it is one of the forms derived from Profit Sharing it is so named as profits shall not be paid to the workers at the end of the year, rather it shall be recorded with their name as well as it shall be invested for them in order to achieve more profits to them, in addition workers shall obtain their profits upon the termination of their Functional Package in the organization for any reason whether retirement, resignation, or... etc.

Indirect Compensation:

These incentives are referred to as employee benefits, which consist of various services of financial value provided by organizations to all their workers as grants without charge, or with partial coverage of their cost. They are not limited to a specific group of workers (only permanent workers), regardless of their performance and efficiency at work, as they are provided because they are members working within the organization.

They are called indirect because obtaining them is not directly related to the individual's effort and activity in performing their assigned tasks. These indirect employee benefits take two forms:

Voluntary: This form aims to create a sense of belonging and loyalty among workers towards the organization.

Mandatory: Most labor laws in countries require organizations to provide certain job benefits to their workers, such as health insurance and social security.

These additional job benefits achieve the following benefits:

- Fostering loyalty and belongingness among workers towards the organization.
- Boosting the morale and job satisfaction of workers.
- Serving as a means to attract human talent in the labor market, especially rare talent.
- Improving the organization's relationship with labor unions.
- Gaining satisfaction from the community and leaving a positive impression of the organization on it.

Although these benefits, they incur significant financial costs for organizations, especially large-scale ones with a large number of workers.

In a study conducted on a sample of companies in the United States of America in 2000 regarding the costs incurred by American Companies in the field of additional job benefits, it has been shown that these companies pay approximately 50% of their salary and wage budget on these benefits.

Below are the most common types of these benefits

1. Health insurance

It ranks high on the list of indirect incentives provided by organizations to their workers.

Because health is the most important thing for humans whether they are working or not.

Since medical treatment has become a significant financial burden on human resources in the workplace in the majority of countries around the world.

Health insurance services for employees are usually provided in the form of a group insurance contract that the organization enters into with an insurance company.

The premium for health insurance may be covered entirely by the organization, or the organization may contribute to covering part of it. The remaining part is covered by the works, and this varies from one organization to another and from one country to another.

2. Social Security:
to another according to applicable laws.

Social Security is a program or plan in which workers are paid a monthly amount as a pension when they retire from work, or if they become ill or disabled and are unable to work. These programs are usually issued and regulated by government laws.

In the Social Security instalment, the organization contributes the majority of the amount, while the individual covers the remaining part. The individual's contribution is deducted from their monthly salary and deposited into an institution overseen by the state, called the Social Security Institution.

3. Sick Leave: Organizations pay full salary or wages to their workers during their illness and recovery period, but within certain time limits. These limits vary from one organization to another and from one country to another, depending on the governmental laws regulating it. If the illness and recovery period exceed the specified duration, a certain percentage of the individual's salary or wages may be deducted.

Below is an explanation of this:

	From 1	To	60 days	Full salary or wage is paid
	From	To	90 days	75% of the salary or wage
61				is paid.
	From	To	120 days	50% of the salary or wage
91				is paid.
	From	To	150 days	25% of the salary or wage
121				is paid.
	From	To	180 days	Without salary or wage.
151				

4. Insurance

Organizations offer insurance as an incentive and service to their workers, such as life and car insurance, and this benefit is provided in multiple forms:

1. The organization pays the insurance premium in full.

2. The organization pays a portion of the monthly insurance premium, and workers cover the rest.

3. Workers bear the full monthly insurance premium, with a discount offered by the insurance company. This is called group insurance discount. The reason for this discount is that the risk rate in group insurance is lower than that in individual insurance.

5. Paid Vacation:

A certain number of annual days with paid salary or wage provided by organizations to their workers to take a break, relax, and rejuvenate. When determining the duration of this vacation, three criteria are taken into account:

Administrative level, age, and government laws and regulations.

For example, the older the individual or the higher their administrative level, the longer the vacation period.

6. Family Leave:

A certain number of annual days granted by organizations to their employees with salary or wage, as a recognition of certain family circumstances they may encounter.

For example, maternity leave, leave for caring for elderly parents.

7. Child Care:

A study conducted on a sample of married women in several companies in the United States highlighted the reasons for their delay or absence from work. The study revealed that 7% of their absences and delays were due to the lack of childcare facilities, resulting in their absence from work. To address this issue, many companies either establish their own childcare centers or contract with daycare centers. This service is provided either free of charge or at a minimal cost, as seen in KSA.

8. Food Service: today, many of the organizations especially those in which the official working hours are divided into two periods, morning hours before noon and evening hours after noon with a long break between them to have lunch shall construct a restaurant or a cafeteria inside it in order to serve lunch meals, hot and cold drinks with at discounted prices for workers for it.

9. Education Assistance: One of surveys showed that 97% of 617 companies provides education assistance to their workers; these educational programs pay in whole or in part to increase employee's skill but may be related to employee's work.

10. Relocation Programs: includes expenses paid to the worker to move to the workplace, or it may be in the form of renting a house in the new workplace, or a mortgage, in addition to the possibility of company purchasing the employee's house in previous place of residence, subjecting the worker and their family to psychological care and solving their problems resulting from changing their place of residence.

Additional Functional Benefits Package:

There is no doubt that it is extremely difficult for an organization to offer all the above functional benefits for free because their cost will be very high. Thus, in order to benefit its human resources from the largest possible number of functional benefits it offers them, it allocates a certain amount to each of them, leaving him free to choose the benefits that suit their circumstances and participate in them in specific percentages of this amount. Someone with life insurance may contribute 50% of the amount allotted to them and 25% of social security in addition to 25% custody of children. Therefore, we leave workers free to choose the benefits that suit them.

Compensation⁸ Administration:

⁸ Aqili, Omar Wasfi, Reference previously mentioned: Page 502 – 504.

Administration shall bear great burdens and costs while administrating Compensation, therefore it shall make strategic decisions that achieve the desired benefit from Administration of these compensation, especially after we have learned about the importance of these compensation and their impact on various aspects of Human Resource Management:

Pay above Market Rate Strategy: The adoption of this strategy “Pay above Market Rate” is in line with an organization that sees compensation as an investment expenditure that achieves a high level of employee performance, increases customer satisfaction and makes it a popular place to work in, helping it to recruit human competencies from labor market, while at the same time maintaining its human competencies and not leaking them to other organizations. In general, there are circumstances that push organizations to adopt this strategy, the most important of which are as follows:

- ❖ The organization adopts a market penetration strategy with a new product, or raises the quality of the current product in a way that is distinguished from competing products, and the organization's need for human competencies to achieve the same. In this case, the organization needs this strategy, to enable it to recruit its need of human competencies and at the same time maintain its current human resources.
- ❖ The organization is about to expand its current activity, and it needs diverse human resources, and supply in labor market is less than demand.
- ❖ The lack of some specialties and human skills in labor market that the organization needs.
- ❖ Reduce labor turnover and prevent human resources leakage to other organizations paying higher compensation.

- ❖ The organization's low productivity and organizational effectiveness due to the low level of job satisfaction among human resources in the organization, and dissatisfaction of its customers with the quality of the product.

- ❖ Work in remote geographical areas, or in difficult or hazardous climatic circumstances.

Pay Below Market Rate Strategy:

This strategy “Rate Pay Below Market Rate” is commensurate with the fact that the organization's view of compensation as a cost that affects its profitability shall be compressed; this strategy has adverse effects on the organization, perhaps the most important of which is drain of its other human competencies to other organizations and the survival of human resources with normal performance and efficiency therein, and this adversely affects their production and effectiveness and the loss of their customers over time; it is true that this strategy saves money to the organization, but this Gain will be eroded due to the low level of customer satisfaction and its sales number. In addition, the possibility of a high labor turnover rate, and the difficulty of recruitment its need for human competencies from labor market. In general, this strategy is in line with certain circumstances, the most important of which are as follows:

- ❖ The existence of a surplus in human resources in the organization that you want to dispose thereof, so it reduces compensation of workers who do not need them, and keeps compensation of others the same.

- ❖ The organization's strategy is directed at gradually reducing its activity or withdrawing from the market.

- ❖ The organization's strategy is directed to merge with another organization.

- ❖ A large abundance of human resources in labor market due to economic depression, for example.

- ❖ The organization's strategy is directed to reduce the cost of work and thus offer the product at a competitive price.

Pay Market Rate Strategy:

This strategy “Pay Market Rate” shall represent a compromise between the two aforementioned strategies, where the organization can achieve aspect of recruitment and prevent the leakage of its human resources to other organizations, and achieve external equality in compensation, but it does not make it distinct from other organizations. In general, it is very common to use this strategy because it represents a moderate trend in the field of compensation.

Composed Compensation Strategy:

We mentioned earlier that compensation includes two main items:

Financial Compensation consists of direct and indirect compensation, and non-financial expresses moral incentives related to the psychological, social, and material work environment. Under this strategy “Composed Compensation Strategy” the organization seeks to distinguish from other organizations in one or more items of compensation (Salaries and Wages, Over Time Pay, Health Insurance, Social Security ... etc.).

Other items are either equivalent or below market rate. This strategy is characterized as practical, the adoption of First Strategy is accompanied by the possibility of not covering expected return of excess spending of compensation to occupy leading position therein. Second Strategy is accompanied by problems that we explained previously, and the adoption of Third Strategy is not easy when market rate is high and the organization cannot keep up. Therefore, Composed Compensation Strategy represents a compromise between previous three strategies.

The following table shows the reflection of each of previous possibilities of the organization:

Possibility	Impact	A	A	J	Productivity and Organizational Effectiveness	Customer satisfaction	Costs
		bility to recruitment	bility to maintain human resource	ob satisfac tion			
Higher rate	High	+	+	+	+	+	?
Equivalent rate	Equivalent	=	=	=	?	=	=
Lower rate	Below	-	?	-	?	?	+
+	High-Level Ability						
-	Low-Level Ability						
=	Situation equivalent to prevail in the market						
?	In doubt						

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