

Human Resources Management

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MGM 243

Lecture 08



Compensation Strategies and Practices

Chapter
12

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Human Resource
Management

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Chapter
12

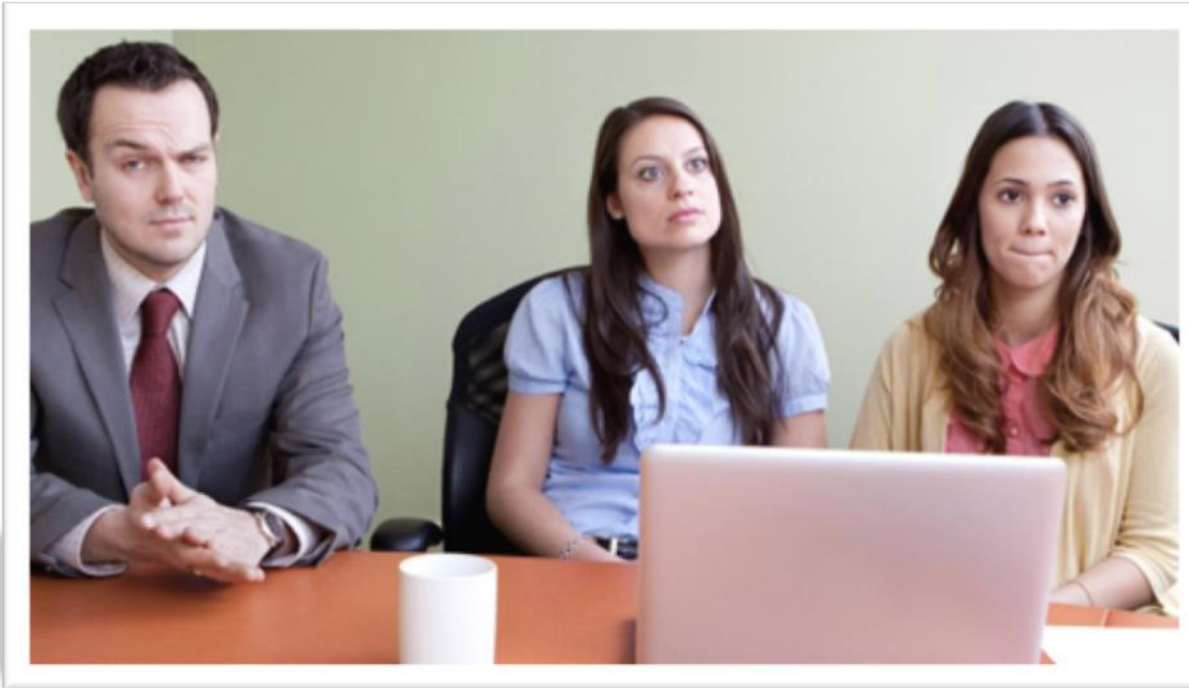
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Chapter 12

**Compensation Strategies
and Practices**

Chapter 12

What Employees Needs !



Employees stay longer when:



Paid Well



Mentored



Challenged



Promoted



Involved



Appreciated



Valued



On a Mission



Empowered



Trusted

Chapter
12

LEARNING OBJECTIVES

After you read this chapter, you should be able to:

- Identify general types of compensation and benefits HR function its components.
- Discuss four strategic compensation design issues.
- Define job evaluation and discuss four methods for performing it.
- Outline the process of building a wage and salary administration system.
- Non-Statutory Benefits



Chapter
12

Compensation Systems

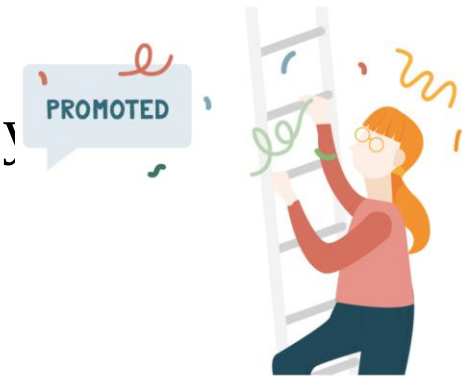
- Objectives of an Effective Compensation System:
 - Compensation Legislation
 - Cost effectiveness for the organization
 - Internal, external, and individual equity for employees
 - Performance enhancement for the organization



Chapter
12

Nature of Compensation

- Types of Rewards
 - Intrinsic
 - Intangible, psychological and social effects of compensation
 - Casual, Occasional
 - Tangible, monetary and nonmonetary effects of compensation



Chapter
12

COMPONENTS OF A COMPENSATION PROGRAM

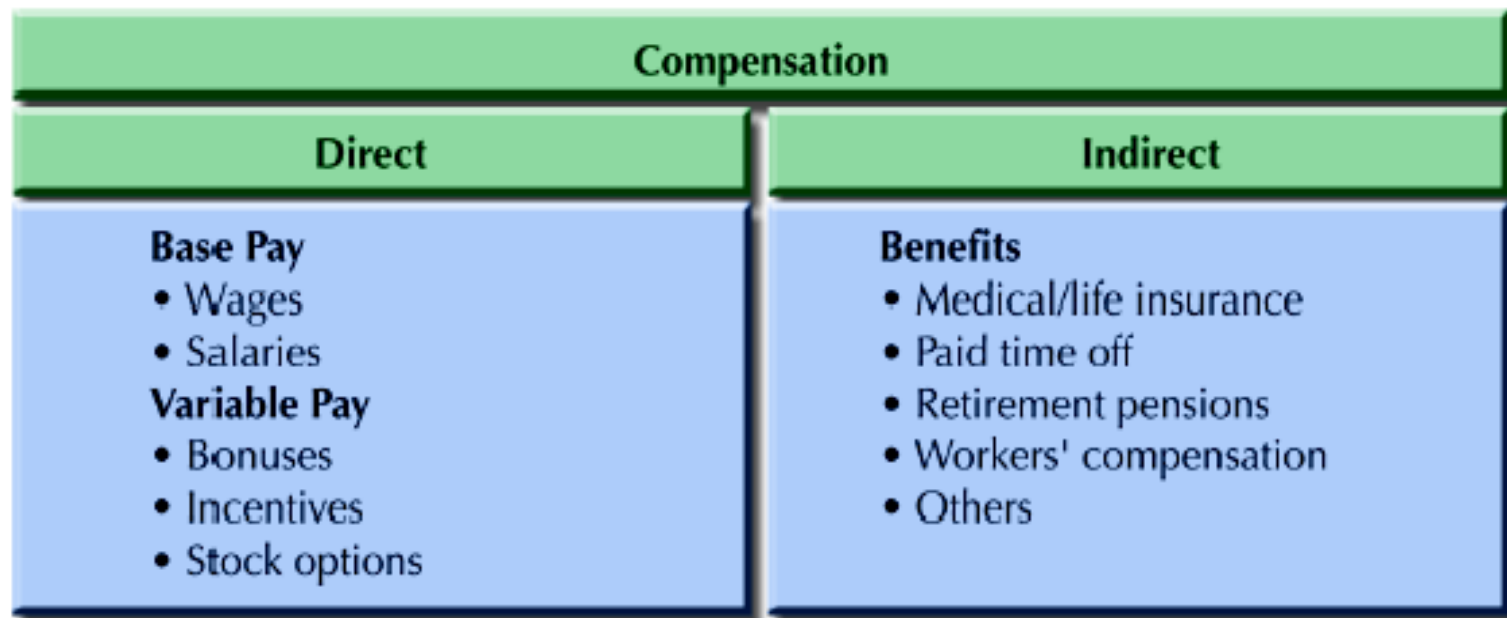


Figure 12–1

Direct Compensation

Compensation Type	
Base Pay	The basic monetary compensation that an employee receives, usually as a wage or salary.
Wages	Payments calculated on the amount of time worked.
Salary	Consistent payments made each period regardless of the number of hours worked in the period.
Variable Pay	Compensation linked to individual, team, or organizational performance.
Benefit	An indirect reward given to an employee or group of employees as a part of organizational membership.

Decisions About Compensation Levels



Compensation Strategies

Above-Market	Paying for higher qualified, more productive workers.
Middle-Market	Attempting to balance of employer costs and need to attract and retain employees.
Below-Market	Paying all that the firm can afford Taking advantage of the abundant supply of potential employees in a loose labor market.

Decisions About Compensation Levels (Cont)


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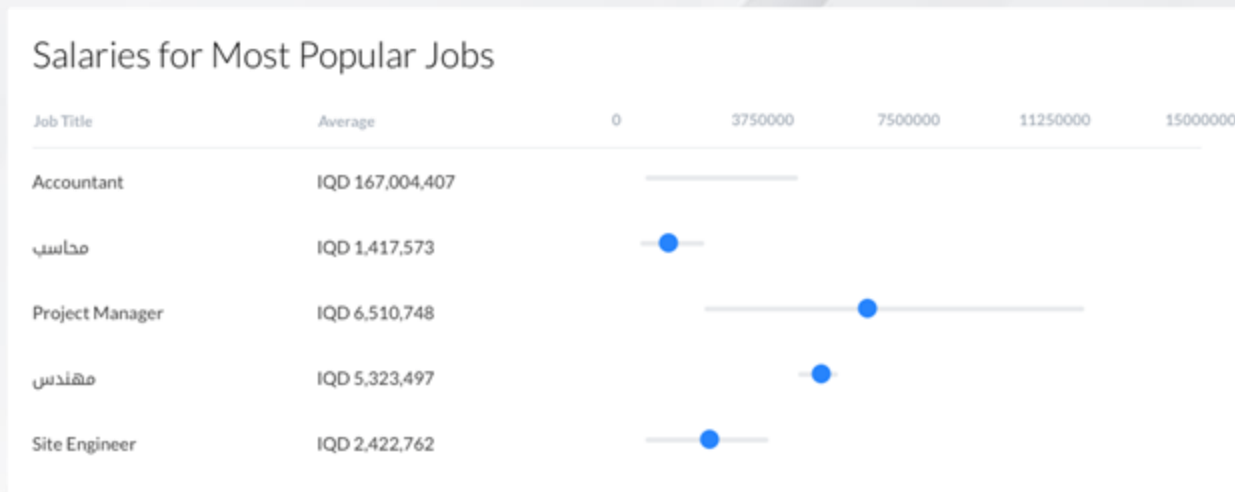
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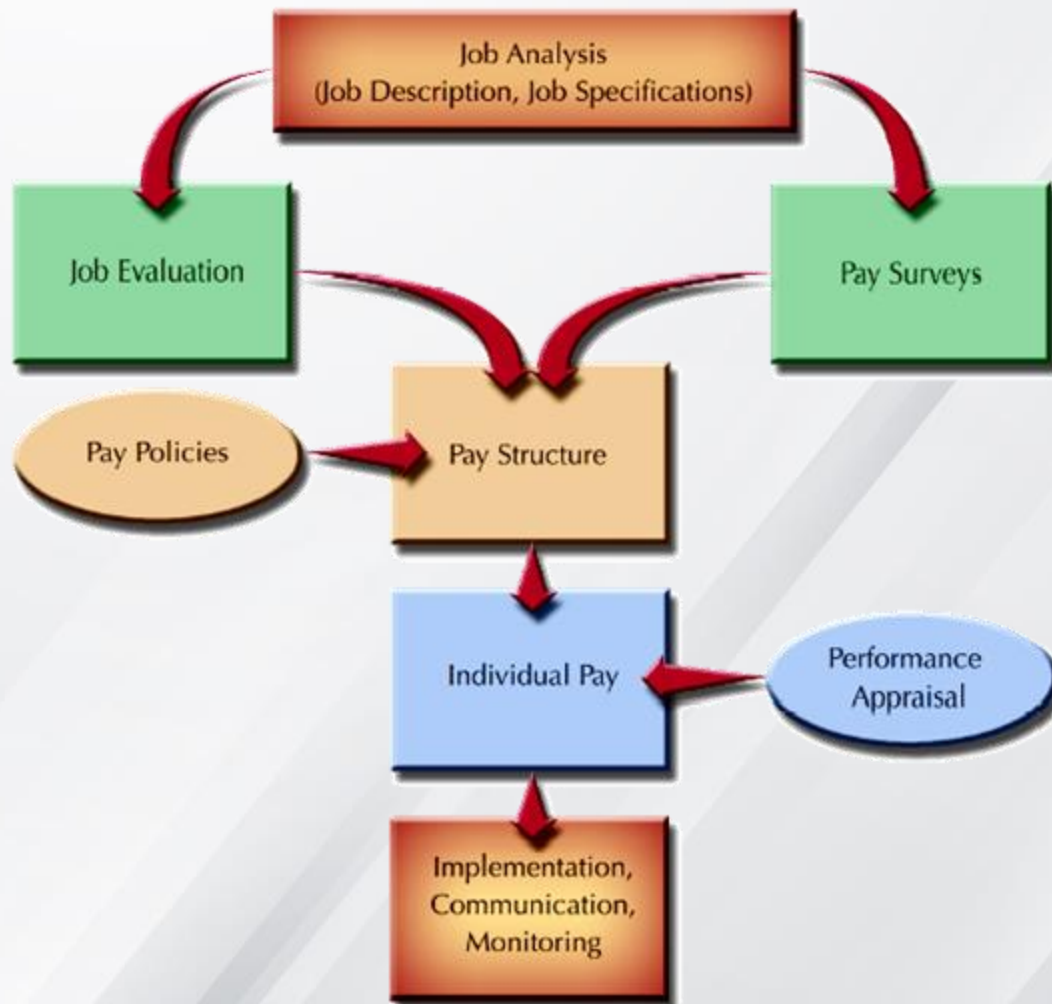
Perceptions of Pay Fairness

Equity	The perceived fairness between what a person does (inputs) and what the person receives (outcomes).
Procedural Justice	The perceived fairness of the process and procedures use to make decisions about employees
Distributive Justice	The perceived fairness in the distribution of outcomes.
Pay Openness	The degree of openness or secrecy that an organization allows regarding its pay system.
External Equity	The perception that the organization provides employees with compensation that comparable to the compensation of employees with similar jobs in other organizations.

Equity Considerations in Compensation



Compensation Administration Process



Job Evaluation Point Chart

Factor	1 st Degree Points	2 nd Degree Points	3 rd Degree Points	4 th Degree Points
<i>1. Education</i>	14	28	42	56
<i>2. Experience</i>	22	44	66	88
<i>3. Initiative and ingenuity</i>	14	28	42	56
<i>4. Contacts with others</i>	14	28	42	56
<i>Responsibility</i>				
<i>5. Supervision received</i>	10	20	35	50
<i>6. Latitude and depth</i>	20	40	70	100
<i>7. Work of others</i>	5	10	15	20
<i>8. Trust imposed</i>	10	20	35	50
<i>9. Performance</i>	7	14	21	28
<i>Other</i>				
<i>10. Work environment</i>	10	25	45	
<i>11. Mental or visual demand</i>	10	20	35	
<i>12. Physical effort</i>	7	14	21	28

Non-Statutory Benefits



Chapter
12**Non-Statutory Benefits (Cont)**

- This topic introduces the commonly used and implemented non-statutory benefits in the local Egyptian market.
- Despite the fact that no organization can or will be implementing all the introduced benefits, the presented variety definitely can help in designing custom programs suitable for almost all business sectors.



Chapter
12**Non-Statutory Benefits**

- ✓ List the commonly used non-statutory benefits in local market
- ✓ Select the most appropriate non-statutory benefits with regards to the organization philosophy.



BENEFITS

Chapter 12

- ✓ **Business Travel**
- ✓ **Car Allowance**
- ✓ **Club Membership**
- ✓ **Company Cars**
- ✓ **Company Gym**
- ✓ **Company Loans**
- ✓ **Company Picnics or Social Events**
- ✓ **Compassionate days off**
- ✓ **Education Allowance**
- ✓ **Education assistance to employees**
- ✓ **Fuel allowance for private car usage**
- ✓ **Furniture Allowance (expatriates)**
- ✓ **Gymnasium membership**
- ✓ **Holiday Entitlement in excess to labor law requirements**
- ✓ **Housing**
- ✓ **Marriage holiday (on top of the leave balance)**
- ✓ **Life/Disability Insurance**
- ✓ **Meal / allowance**
- ✓ **Mobile Allowance**
- ✓ **Mobile phone bill**
- ✓ **Mobile phone handset**
- ✓ **Paternity**
- ✓ **Pension / Retirement Saving Schemes**
- ✓ **Private Health Care**
- ✓ **Relaxation and recreation activities**
- ✓ **Representation Allowance**
- ✓ **Sickness Benefit**
- ✓ **Sporting Events**
- ✓ **Stock option**
- ✓ **Summer Resort Accommodation**

Chapter 12

BENEFITS (CONT.)

- ✓ Eftar Ramadan
- ✓ Job status cars (prestige car)
- ✓ Ka7k El Eid
- ✓ Kindergarten
- ✓ Legal Retirement Benefits/End of Service Benefits
- ✓ Transport Allowance / Company Transport
- ✓ Utilities Allowance
- ✓ Vaccination
- ✓ Wedding bonus
- ✓ Working Conditions Allowance

**Chapter
12****NON-STATUTORY BENEFITS(CONT.)**

- **Sporting Events**
- **Stock option**
- **Summer Resort Accommodation**
- **Transport Allowance / Company Transport**
- **Utilities Allowance**
- **Vaccination**
- **Wedding bonus**
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Chapter
12

NON-STATUTORY BENEFITS

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Chapter 12

Non-Statutory Benefits(cont.)

- Non-statutory benefit programs should always be developed in alignment with the company culture, structure, budget, strategy, philosophy, mission, vision and values.
- Upon deciding which benefits are to be used, the next step is to combine them with the compensation structure to generate the final compensation and benefits model.

Chapter
12

Compensation Legislation list

-Regulations and Laws:

- Minimum wages
- Social security and public health insurance
- Periodic annual increment
- Deductions Overtime Profit sharing Leaves
- Unemployment insurance Income tax exemption



Chapter
12**COMPENSATION LEGISLATION
EGY LABOR LAW NO. 12 2003**

- Any government plays a significant role in the management of employee compensation & benefits.
- Laws have been enacted to establish minimum wages, to govern overtime, to protect employees from wage discrimination and to determine how compensation is taxed.

Chapter
12

Minimum wages

- The national council for wages sets the minimum wages at the national level.
- Wages shall be determined according to the individual labor contract, the collective labor agreement or the statute of the establishment
- Wages based on production or commission, should not be less than the set minimum wage
(The average wage of the workers per production, or commission must be calculated on the basis of the average the worker has received for the actual days of work in the previous year.)

Chapter
12THE SOCIAL SECURITY/PUBLIC
HEALTH INSURANCE

- Employers and employees must both pay social insurance contributions (**Egyptian employees only**).
- Monthly basic salary up to LE **X** at **x**% and **P** % for employer and employee, respectively.
- Variable pay (*allowances, overtime, incentives*) up to LE **Y** monthly, at **L**% and **N** % for employer and employee, respectively.

Chapter
12

Minimum Periodical Annual Increments

- Employees are entitled to a periodical annual increment of not less than (**V** %) of the basic salary on which the social insurance subscriptions are calculated.

Chapter
12

DEDUCTIONS

- Deductions have a maximum ceiling of:
 - R days per month due to disciplinary actions
 - P % per month for loans
 - H % per month in personal affairs prosecution
 - O % per month for in case of alimentary debt

Chapter
12

Overtime pay

The minimum overtime premiums are:

- 35 + - % of normal pay for overtime worked during daylight
- 70 + - % for that worked at night
- 100 + - % on rest days
- 200 + - % on official holidays

Chapter
12**Profit sharing**

- Employees of a Joint Stock Company, Limited Liability Company, or Foreign Branch are entitled to a share in the distributable profits.
- The share is fixed at an amount not less than **Y** % of distributable profits and not more than the total annual salaries of the employees.
- Limited Liability Companies with capital less than **X** \$ are not subject to this distribution of profit share

Leaves

– Annual leaves:

- 21 days for those spending 1 full year in service
- 30 days after completing 10 years of service with one or more employer or over 50 years of age.
- 7 additional days for workers engaged in hard, dangerous, unpleasant works or remote areas



– Public holidays

– Maternity (twice by law, 3 times based on ministerial decree)

- 90 + _ days fully paid + 1 hour breast-feeding for 24 months for females who completed 10 months in service



– Pilgrimage

- Up to one month fully paid, one time eligibility after 5 years of service with the same employer



Chapter
12

Sick leaves

- An employee whose sickness is established and determined by the concerned medical responsible is entitled to sick leave, and shall be compensated according to the Social Insurance Law as follows:
 - 1 + - month fully paid every 3 years
 - 8 + - months 75 + -% of the wage
 - 3 + - month unpaid paid



Chapter
12

Unemployment insurance

- Officially known as the Emergency Subsidy, establishes a fund to compensate workers/employees whose wages are suspended due to firm closure or downsizing.
- The Fund's resources come from a **v** % deduction from the base salaries of the employee in firms with over **k** workers, a government contribution, and other donations.

