

Human Resource Management

Prepared by Dr. Anas M. Bashayreh

HRM 611

Lecture 9





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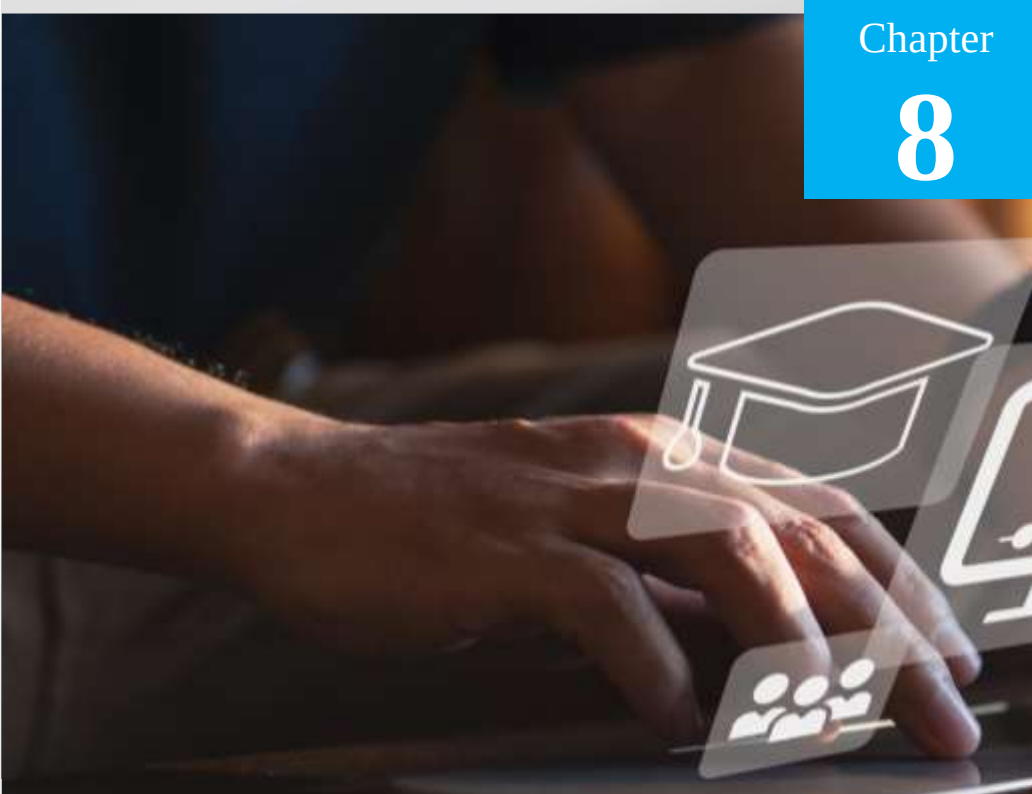
Establishing Strategic Pay Plans

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Chapter
8

Employee Retention, Engagement, and Careers



The main purpose of this Chapter is to show you how to establish a pay plan. We explain job evaluation—techniques for finding the relative worth of a job—and how to conduct online and offline salary surveys. We also explain how to price the jobs in your firm by developing pay grades and an overall pay plan.



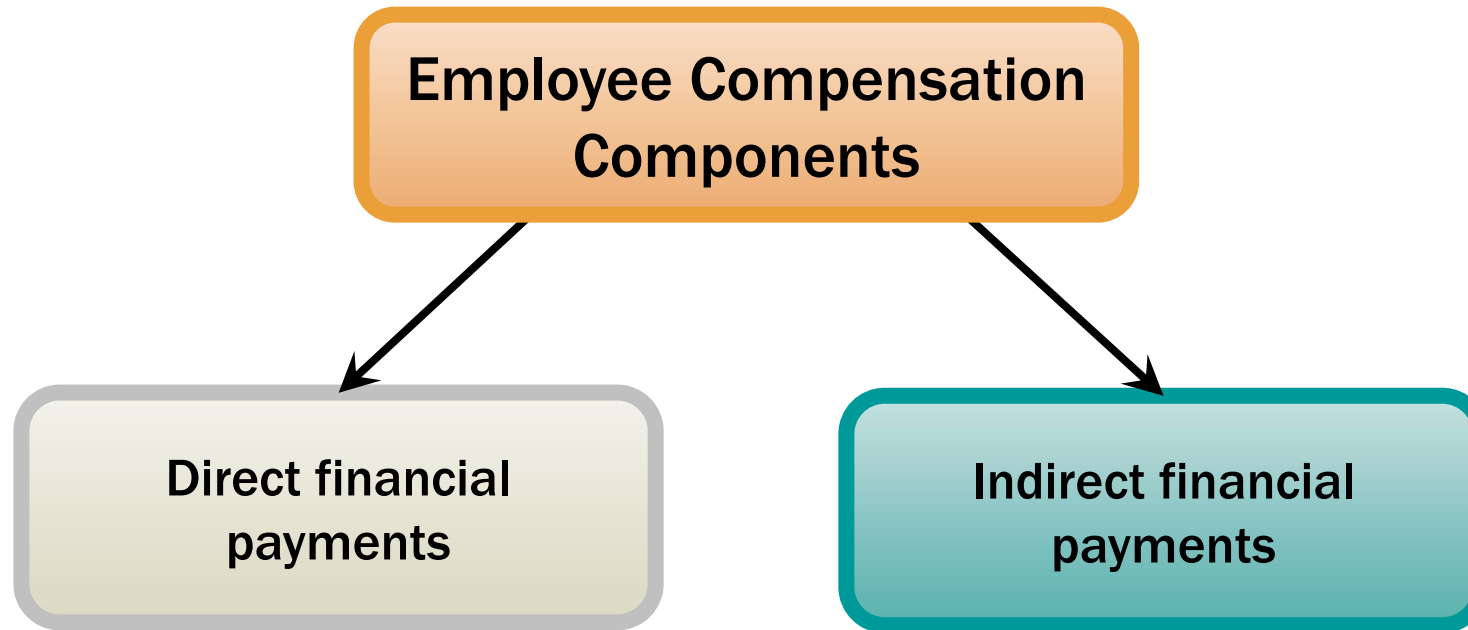
Chapter

9

LEARNING OUTCOMES

1. List the basic factors determining pay rates.
2. Define and give an example of how to conduct a job evaluation.
3. Explain in detail how to establish pay rates.
4. Explain how to price managerial and professional jobs.
5. Explain the difference between competency-based and traditional pay plans.
6. Explain the importance today of broad banding, comparable worth, and board oversight of executive pay.

Basic Factors in Determining Pay Rates



Basic Factors in Determining Pay Rates

Aligning Total Rewards with Strategy

The compensation plan should first advance the firm's strategic aims management should produce an aligned reward strategy. This means creating a compensation package including wages, incentives, and benefits that produces the employee behaviors the firm needs to support and achieve its competitive strategy.

Many employers formulate a total rewards strategy. Total rewards encompass the traditional pay, incentives, and benefits, but also things such as more challenging jobs (job design), career development, and recognition programs.

The HR or compensation manager along with top management creates pay policies that are consistent with the firm's strategic aims.

Questions to Ask:

1. What must our company do, (for instance in terms of improving customer service), to be successful in fulfilling its mission or achieving its desired competitive position?
2. What are the employee behaviors or actions necessary to successfully implement this competitive strategy?
3. What compensation programs should we use to reinforce those behaviors? What should be the purpose of each program in reinforcing each desired behavior?
4. What measurable requirements should each compensation program meet to be deemed successful in fulfilling its purpose?
5. How well do our current compensation programs match these requirements?

Basic Factors in Determining Pay Rates

EQUITY THEORY OF MOTIVATION With respect to compensation, managers should address four forms of equity: external, internal, individual, and procedural.

- External equity refers to how a job's pay rate in one company compares to the job's pay rate in other companies.
- Internal equity refers to how fair the job's pay rate is when compared to other jobs within the same company.
- Individual equity refers to the fairness of an individual's pay as compared with what his or her coworkers are earning for the same or very similar jobs within the company, based on each individual's performance.
- Procedural equity refers to the perceived fairness of the processes and procedures used to make decisions regarding the allocation of pay.

Addressing Equity Issues

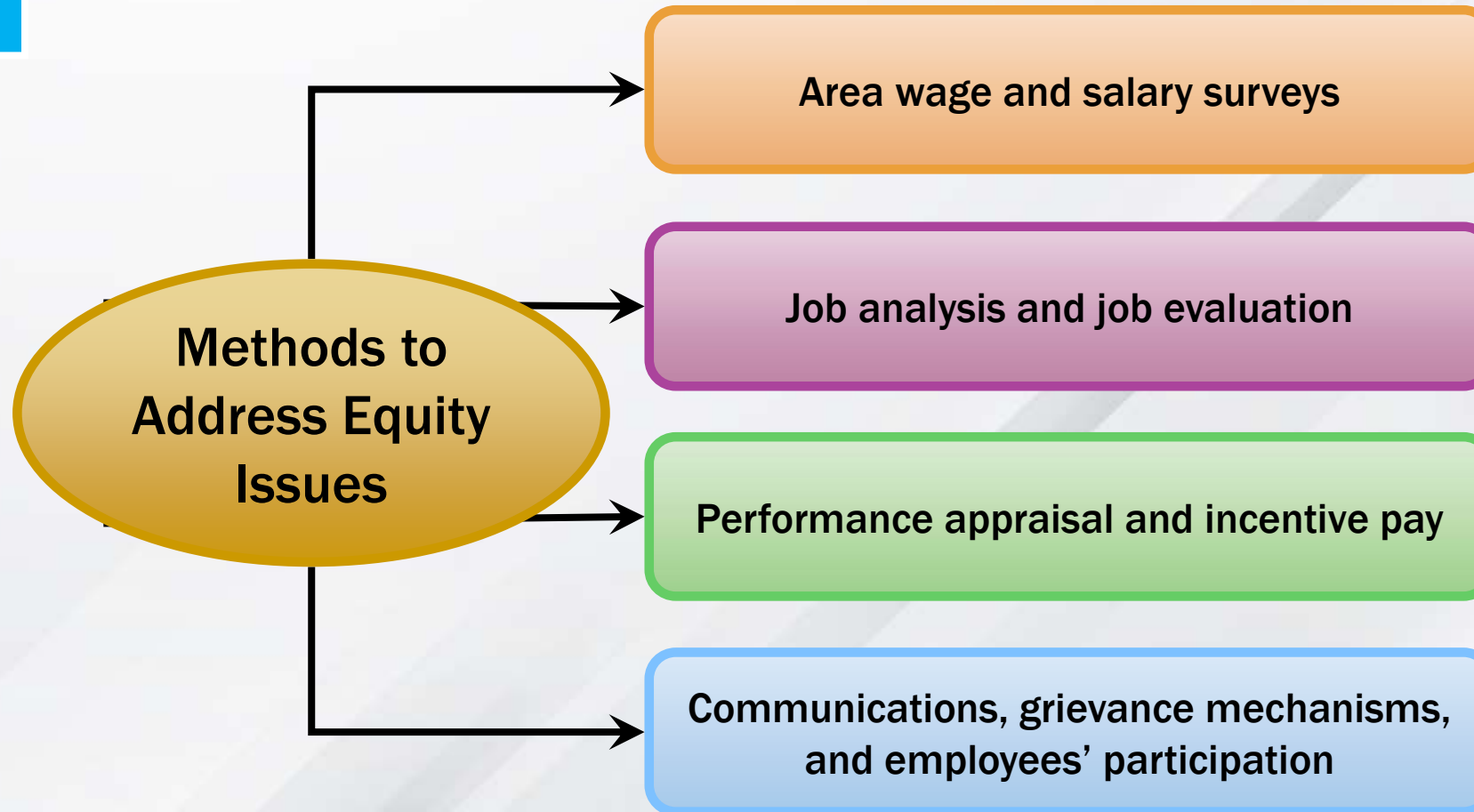


FIGURE Some Typical Exempt, Nonexempt Job Titles**EXEMPT**

Attorneys

Physicians

Pharmacists

Engineers

Teachers

Scientists

Computer systems analysts

General managers

Personnel directors

Accountants

Purchasing agents

NONEXEMPT

Paralegals

Accounting clerks

Newspaper writers

Working supervisor

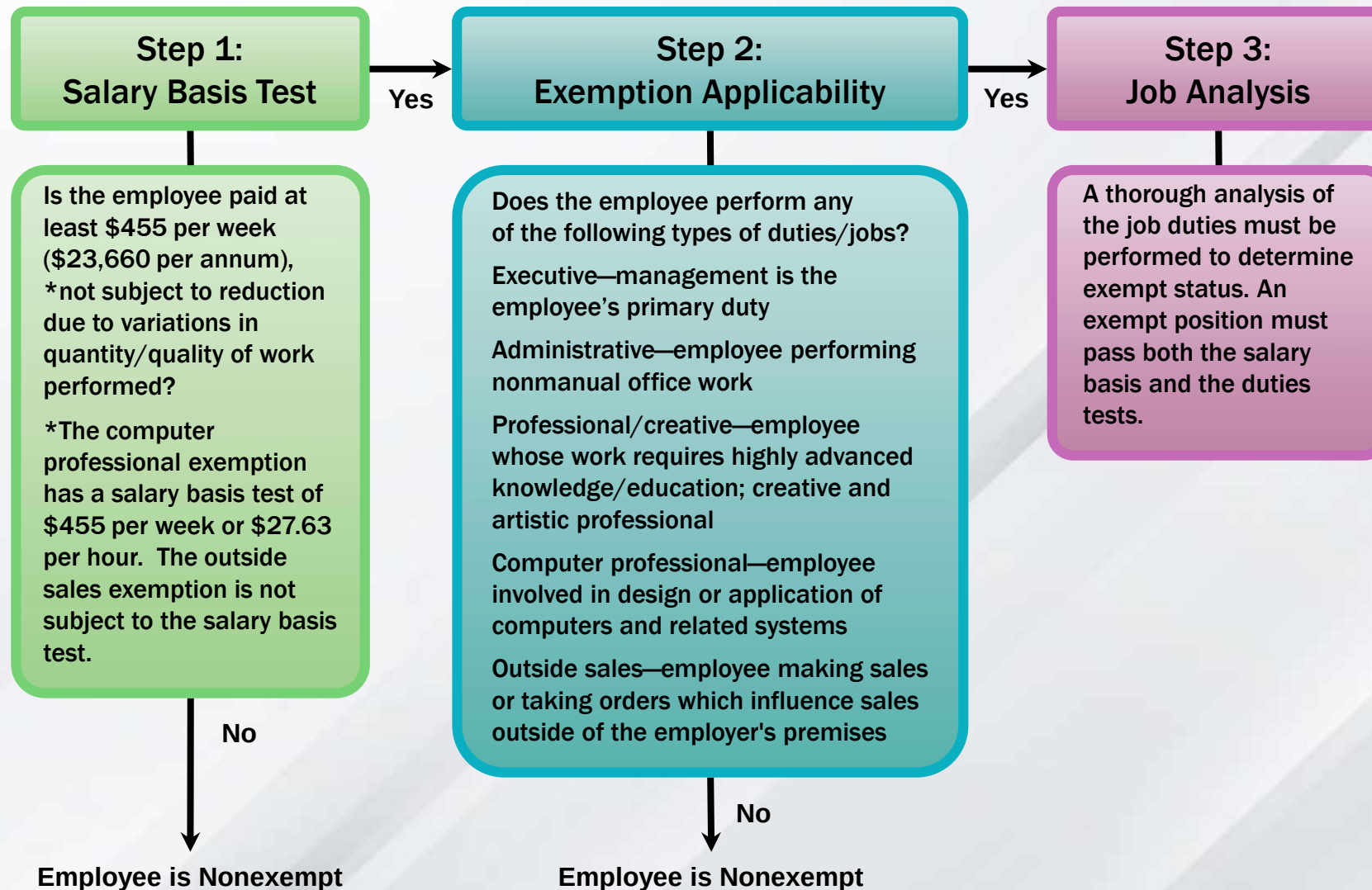
Management trainees

Secretaries

Clerical employees

FIGURE

Who Is Exempt? Who Is Not Exempt?



Compensation Policy Issues

- Pay for performance
- Pay for seniority
- The pay cycle
- Salary increases and promotions
- Overtime and shift pay
- Probationary pay
- Paid and unpaid leaves
- Paid holidays
- Salary compression
- Geographic costs of living differences

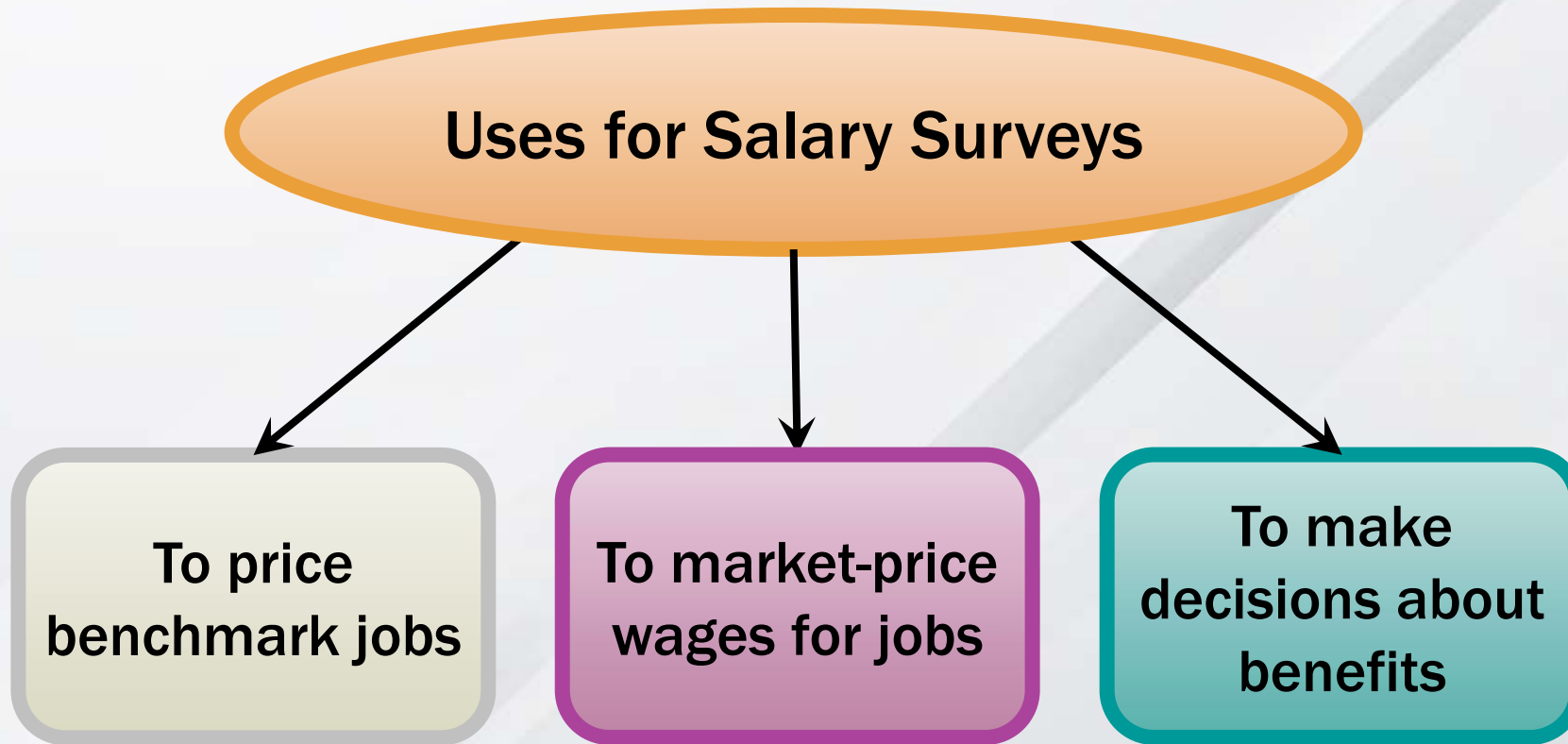


Establishing Pay Rates

Steps in Establishing Pay Rates

- 1 → Conduct a **salary survey** of what other employers are paying for comparable jobs (to help ensure external equity).
- 2 → Determine the worth of each job in your organization through **job evaluation** (to ensure internal equity).
- 3 → Group similar jobs into **pay grades**.
- 4 → Price each pay grade by using **wave curves**.
- 5 → Fine-tune **pay rates**.

Step1: The Salary Survey



Sources for Salary Surveys

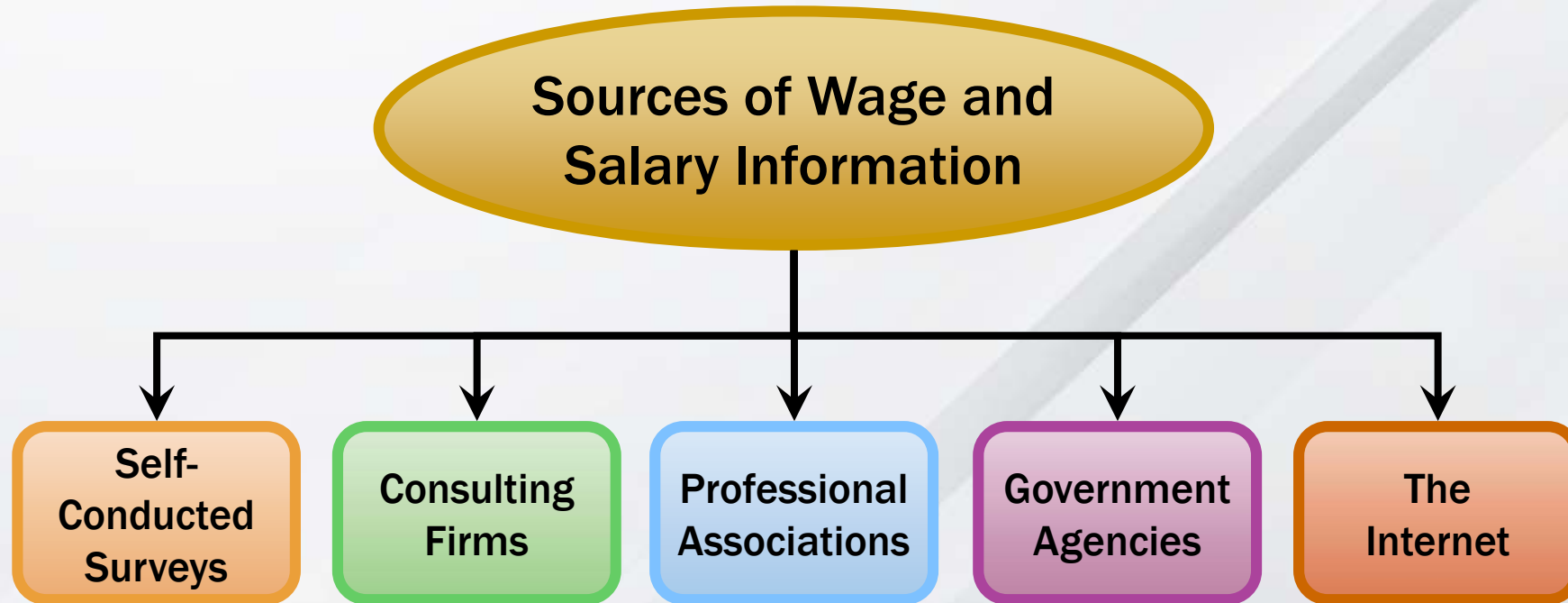
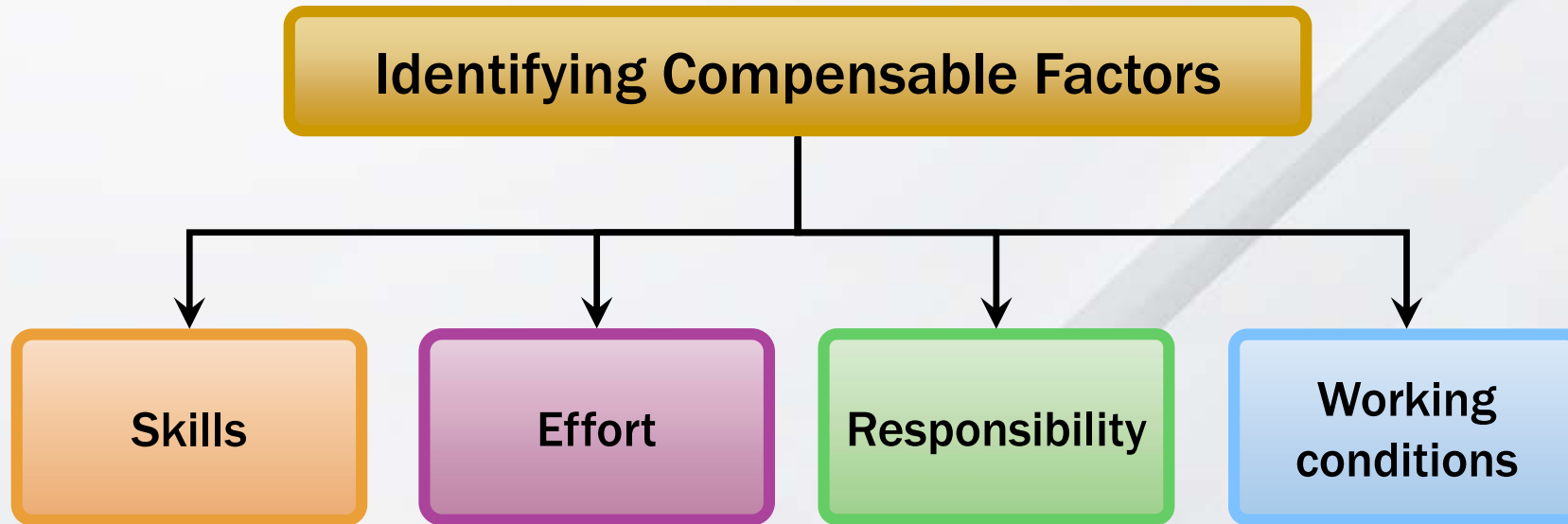


TABLE Some Pay Data Web Sites

Sponsor	Internet Address	What It Provides	Downside
Salary.com	Salary.com	Salary by job and zip code, plus job and description, for hundreds of jobs	Adapts national averages by applying local cost-of-living differences
Wageweb	www.wageweb.com	Average salaries for more than 150 clerical, professional, and managerial jobs	Charges for breakdowns by industry, location, etc.
U.S. Office of Personnel Management	www.opm.gov/oca/09Tables/index.asp	Salaries and wages for U.S. government jobs, by location	Limited to U.S. government jobs
Job Smart	http://jobstar.org/tools/salary/sal-prof.php	Profession-specific salary surveys	Necessary to review numerous salary surveys for each profession
cnnmoney.com	cnnmoney.com	Input your current salary and city, and this gives you comparable salary in destination city	Based on national averages adapted to cost-of-living differences

Step 2: Job Evaluation

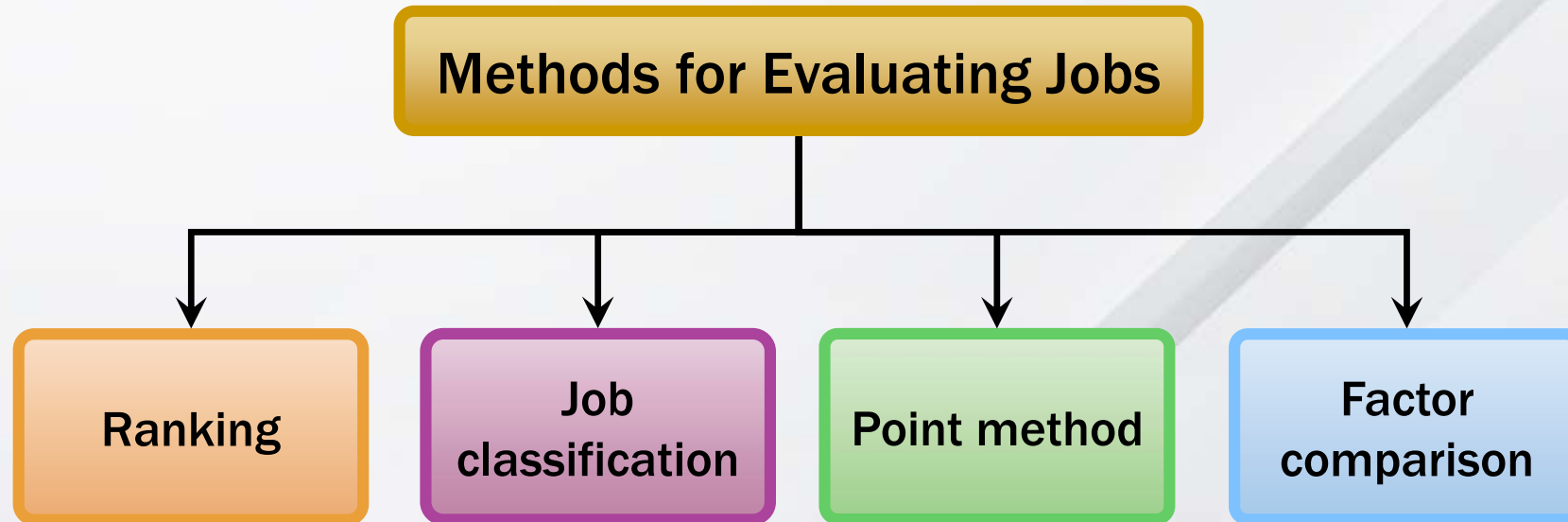


The Job Evaluation Process

Preparing for the Job Evaluation

- ① → Identifying the need for the job evaluation
- ② → Getting the cooperation of employees
- ③ → Choosing an evaluation committee
- ④ → Performing the actual evaluation

How to Evaluate Jobs



Job Evaluation Methods: Ranking

Ranking each job relative to all other jobs, usually based on some overall factor.

Steps in job ranking:

1. Obtain job information.
2. Select and group jobs.
3. Select compensable factors.
4. Rank jobs.
5. Combine ratings.

Job Evaluation Methods: Job Classification

Raters categorize jobs into groups or classes of jobs that are of roughly the same value for pay purposes.

- Classes contain similar jobs.
 - Administrative assistants
- Grades are jobs similar in difficulty but otherwise different.
 - Mechanics, welders, electricians, and machinists Jobs are classed by the amount or level of compensable factors they contain.

FIGURE 11-4 Example of a Grade Level Definition

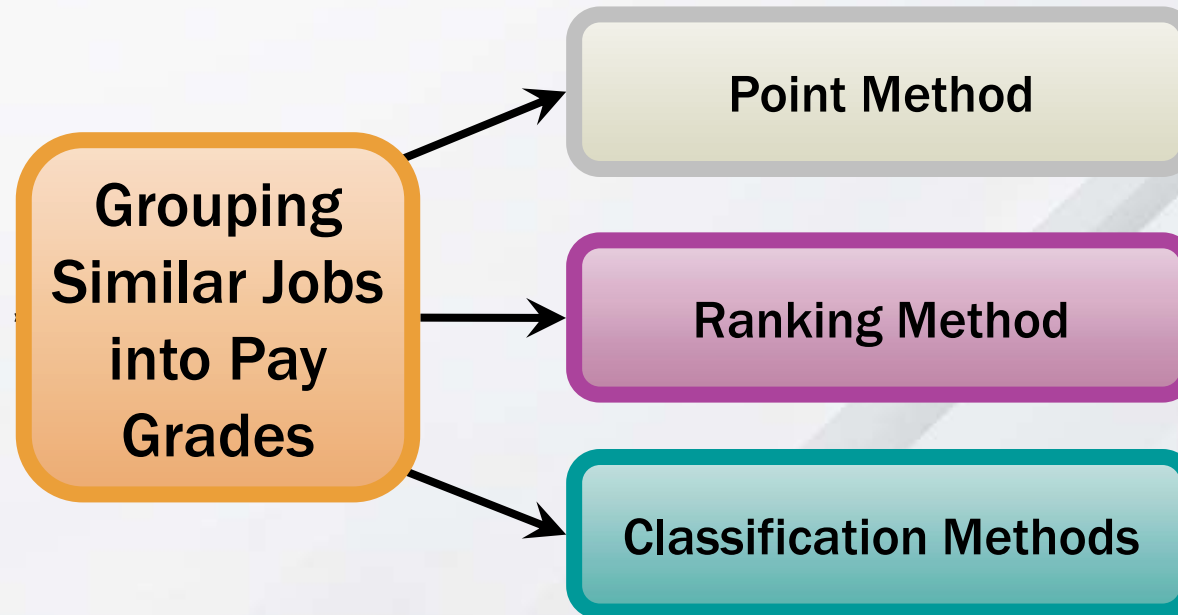
Grade	Nature of Assignment	Level of Responsibility
GS-7	Performs specialized duties in a defined functional or program area involving a wide variety of problems or situations; develops information, identifies interrelationships, and takes actions consistent with objectives of the function or program served.	Work is assigned in terms of objectives, priorities, and deadlines; the employee works independently in resolving most conflicts; completed work is evaluated for conformance to policy; guidelines, such as regulations, precedent cases, and policy statements require considerable interpretation and adaptation.

This is a summary chart of the key grade level criteria for the GS-7 level of clerical and assistance work. Do not use this chart alone for classification purposes; additional grade level criteria are in the Web-based chart.

Job Evaluation Methods: Point Method

- A quantitative technique that involves:
 - Identifying the degree to which each compensable factor is present in the job.
 - Awarding points for each degree of each factor.
 - Calculating a total point value for the job by adding up the corresponding points for each factor.

Step 3: Grouping Jobs



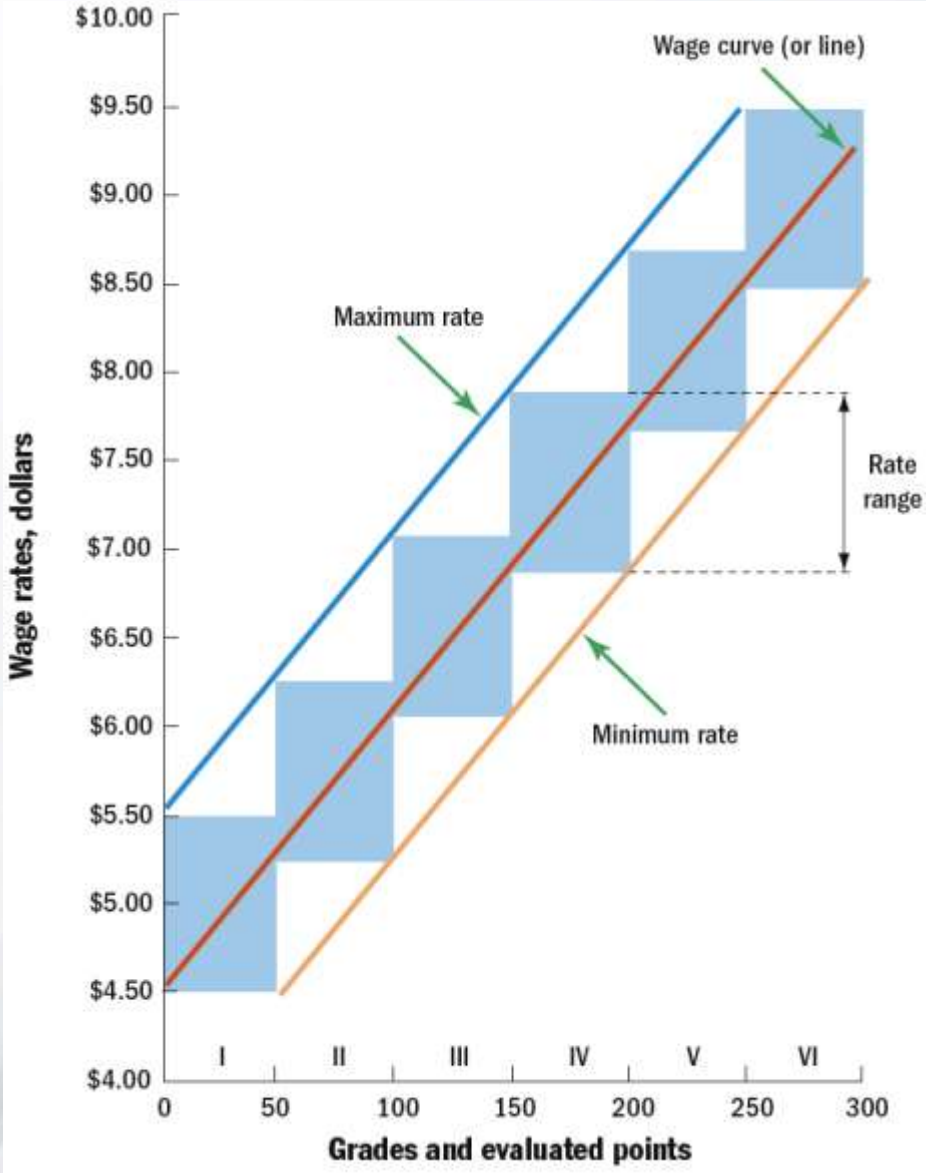
Step 4: Price Each Pay Grade

- The Wage Curve
 - Shows the pay rates paid for jobs in each pay grade, relative to the points or rankings assigned to each job or grade by the job evaluation.
 - Shows the relationships between the value of the job as determined by one of the job evaluation methods and the current average pay rates for your grades.

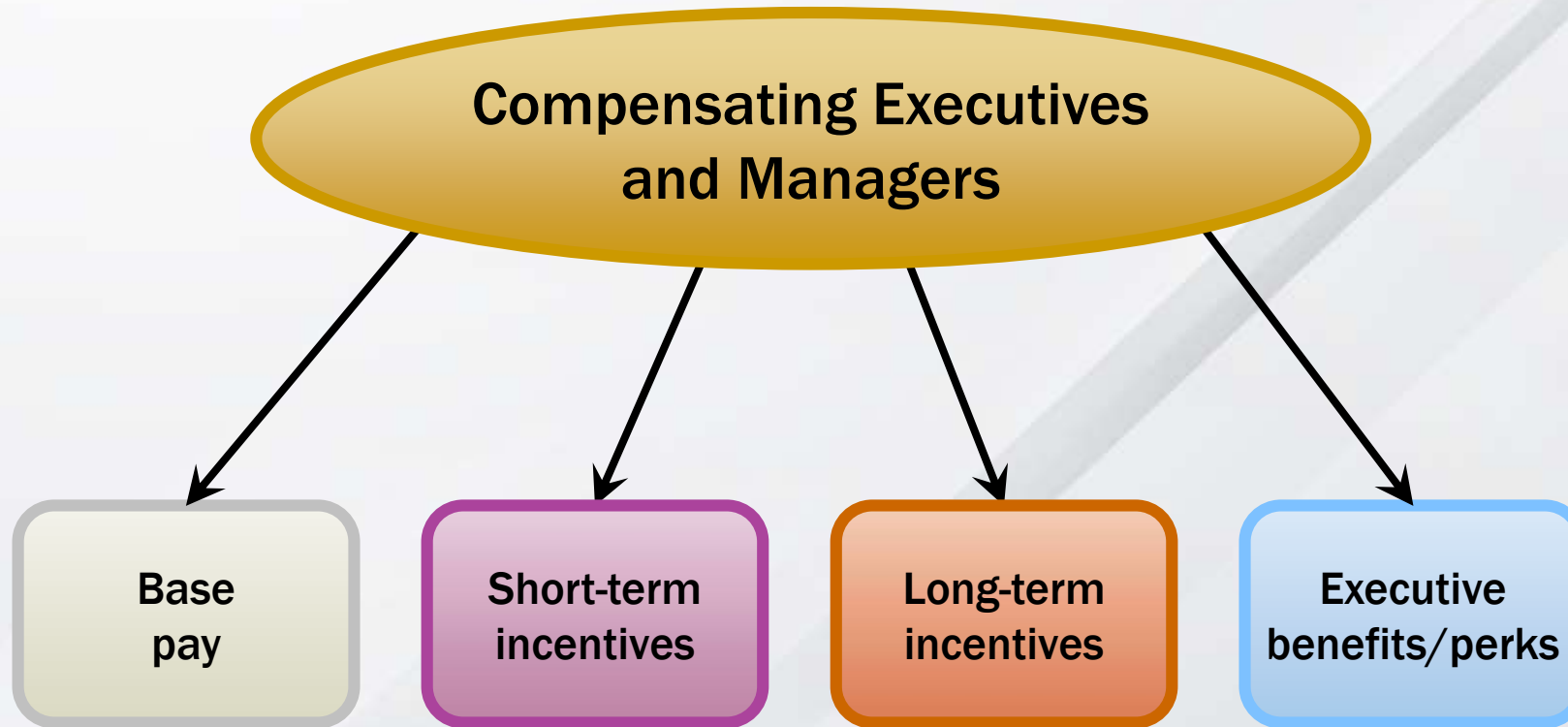
Step 5: Fine-Tune Pay Rates

- Developing Pay Ranges
 - Flexibility in meeting external job market rates
 - Easier for employees to move into higher pay grades
 - Allows for rewarding performance differences and seniority
- Correcting Out-of-Line Rates
 - Raising underpaid jobs to the minimum of the rate range for their pay grade
 - Freezing rates or cutting pay rates for overpaid (“red circle”) jobs to maximum in the pay range for their pay grade

FIGURE 11-6 Wage Structure



Pricing Managerial and Professional Jobs



Pricing Managerial and Professional Jobs

- What Determines Executive Pay?
 - CEO pay is set by the board of directors taking into account factors such as the business strategy, corporate trends, and where they want to be in the short and long term.
 - CEOs can have considerable influence over the boards that determine their pay.
 - Firms pay CEOs based on the complexity of the jobs they fill.
 - Shareholder activism and government oversight have tightened the restrictions on what companies pay top executives.
 - Boards are reducing the relative importance of base salary while boosting the emphasis on performance-based pay.

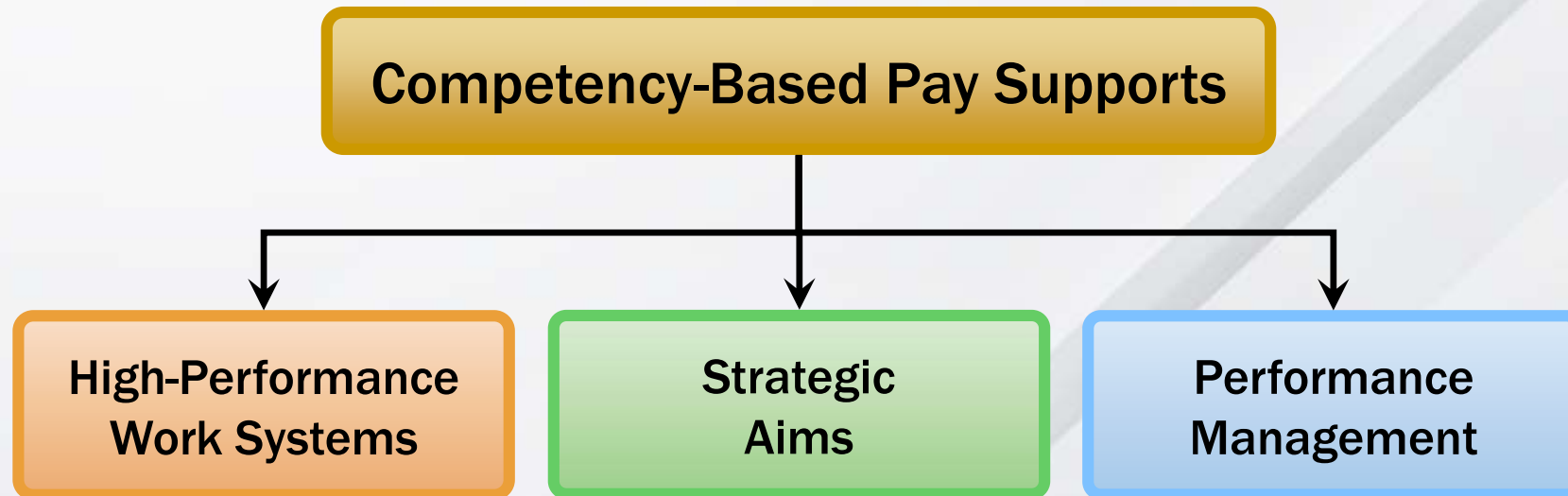
Compensating Professional Employees

- Employers can use job evaluation for professional jobs.
- Compensable factors focus on problem solving, creativity, job scope, and technical knowledge and expertise.
- Firms use the point method and factor comparison methods, although job classification is most popular.
- Professional jobs are market-priced to establish the values for benchmark jobs.

Competency-Based Pay

- Competencies
 - Demonstrable characteristics of a person, including knowledge, skills, and behaviors, that enable performance.
- What is Competency-Based Pay?
 - Paying for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

Why Use Competency-Based Pay?



Competency-Based Pay in Practice

- Main elements of skill/competency/knowledge-based pay programs:
 1. A system that defines specific skills
 2. A process for tying the person's pay to his or her skill
 3. A training system that lets employees seek and acquire skills
 4. A formal competency testing system
 5. A work design that lets employees move among jobs to permit work assignment flexibility

Competency-Based Pay: Pros and Cons

- Pros
 - Higher quality
 - Lower absenteeism
 - Fewer accidents
- Cons
 - Pay program implementation problems
 - Costs of paying for unused knowledge, skills, and behaviors
 - Complexity of program
 - Uncertainty that the program improves productivity

Special Topics in Compensation

- Broadbanding
 - Consolidating salary grades and ranges into a few wide levels or “bands,” each of which contains a relatively wide range of jobs and salary levels.
- Pros and Cons
 - More flexibility in assigning workers to different job grades
 - Provides support for flatter hierarchies and teams
 - Promotes skills learning and mobility
 - Lack of permanence in job responsibilities can be unsettling to new employees.

Comparable Worth

- Concept:
 - Employers should be required to pay men and women equal wages for dissimilar jobs that are of *comparable* (rather than strictly *equal*) value to the employer.
- Basis:
 - Seeks to address the issue that women have jobs that are dissimilar to those of men and those jobs are often consistently valued less than men's jobs.
- Question at Hand:
 - Who will get to make final decisions on the comparability of jobs?
 - Employers
 - Courts

The Pay Gap

- Factors Lowering the Earnings of Women:
 1. Women's starting salaries are traditionally lower.
 2. Salary increases for women in professional jobs do not reflect their above-average performance.
 3. In white-collar jobs, men change jobs more frequently, enabling them to be promoted to higher-level jobs over women with more seniority.
 4. In blue-collar jobs, women tend to be placed in departments with lower-paying jobs.

Improving Productivity Through HRIS: Automating Compensation Administration

- Benefits of Compensation Automation:
 - Allows for quick updating of compensation programs
 - Eliminates costs of formerly manual processes
 - Coordinates centralized compensation budgets to prevent overages in compensation and raises
 - Can integrate and automatically administer other pay actions

CHAPTER SUMMARY

1. In establishing strategic pay plans, managers first need to understand some basic factors in determining pay rates. Employee compensation includes both direct financial payments and indirect financial statements. The factors determining the design of any pay plan include legal, union, company strategy/policy, and equity.
2. The process of establishing pay rates while ensuring external, internal, and procedural equity consists of five steps: conducting a salary survey, determining the worth of each job, doing a job evaluation, grouping jobs comprised of approximately equal difficulty and pricing each pay grade with wage curves, and fine-tuning pay rates.
3. Pricing managerial and professional jobs involves some special issues. Managerial pay typically consists of base pay, short-term incentives, long-term incentives, and executive benefits and, particularly at the top levels, doesn't lend itself to job evaluation but rather to understanding the job's complexity, the employer's ability to pay, and the need to be competitive in attracting top talent.

1. What is the difference between exempt and nonexempt jobs?
2. What is the relationship between compensable factors and job specifications?
3. Compare and contrast the following methods of job evaluation: ranking, classification, factor comparison, and point method?



Chapter
9

DISCUSSION QUESTIONS



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Thank You



