

Chapter 12 Establishing pay plans

- Employee compensation
 - All forms of pay or rewards going to employees and arising from their employment
 - Includes two components
 - Direct financial payments
 - E.g. wages, salaries, incentives, commissions, and bonuses
 - Two ways compensate
 - Piecework
 - Incentive pay plan
 - Indirect payments
- Four basic factors determining pay rates
 - Legal consideration in compensation
 - Union influences on compensation
 - Provides legal protection of employees from arbitrary action
 - Many time union leaders are incorporated in devising the pay rates with mgmt to make it bias free
 - Compensation policies
 - Employer's policies reflect in their wages and benefits
 - Other polices are for salary increase, promotions, demotions, overtime pay, probationary period etc.

- Equity and its impact on pay rates
 - Equity in both external and internal
 - External equity

 - Internal equity
 - Sometimes an employer uses a survey to locate the source of employees' perception about the fairness of the wages/salaries

- Process of establishing pay rates

- Step 1: Salary survey
 - Survey for determining the prevailing wage rates
 - Three ways to do salary survey

 - Benchmark job
 - A job that is used to anchor the employer's pay scale and around which other jobs arranged in order of relative worth
 - Upward bias can be problem in salary survey

 - Formal and informal survey by employer
 - It is especially good for small companies dealing with low profile jobs

 - Commercial, professional, and Govt. survey
 - Bureau of labor and statistics
 - Dept. of labor

- Step 2: Determine the worth of each job
 - (A) Purpose of the job evaluation
 - Job evaluation
 - This job evaluation is used to rank all jobs in the org

- (B) Compensable factors
 - Two approaches for comparing jobs
 - Intuitive approach
 - Compensable factors
 - Comparing basic jobs with factors that are common
 - These factors later constitute the definition of job content and compensation of the jobs
 - Certain factors are appropriate in one job, which can be very in appropriate in another job
 - E.g.
- (C) Planning and preparation for the job evaluation
 - Job evaluation process should be done with the help from managers, supervisors, unionists, and personnel specialists
 - The need for job evaluation will be realized from many sources
 - High turn over resulted from dissatisfaction
 - Composition of the committee
 - Usually five-member group
 - All of the are employees
 - An HR specialist may be involved
 - Evaluation committee serves three purposes
- Ranking methods of job evaluation
 - This simplest method of job evaluation that involves ranking each job relative to all other jobs usually based on overall factor like “job difficulty”

-Steps on job ranking method

-Obtain job information

-Select raters and job to be rated

-Select compensable factors

-Rank jobs

-Combine ratings

-Pros and cons of job ranking method

-Disadvantages

-Depends too much on guesstimates

-Step 3: Group similar jobs into pay grades

-A pay grade is comprised of jobs of approximately equal difficulty or importance

-If you have too many individual job pay grades then it is very difficult to administer as firms may have hundreds of different jobs

-Step 4: Price each pay grade

-Wage curve

-Vertical axis: points and horizontal axis: salary offered

-Steps in pricing the jobs

-Find the average pay for each pay grade

-Step 5: Fine tune pay rates

-Developing rate range

-Rate range is series of stages or levels within a pay grade, usually based upon years of service

-Advantages of rate ranges

-Employers can avoid paying one rate for all jobs in particular pay grade

-It allows us to differentiation through seniority or performance

-Correcting out of line raters

-When it is below the line a raise is required

-When it is above the line a pay cut or pay freeze is required

-Red circle/flagged/overrates

-Three ways to deal with overrate problems

-Skill based pay

-Difference between skill based pay and job based pay

-Competence testing

-Effect of the job change

-Seniority and other factor

-*** Job description is not necessarily a job restriction

-Employees have a tendency to limit their behavior within

what is written into that piece of paper

-A glimpse into the future

-More and more companies will pay their employees based on skills and competence not merely on job responsibilities

-The concept of centrally determined pay level will be obsolete

-Compensating managers

-Five elements in manager's compensation

-Salary

-Managers are paid on the value of their work to the org and how well the person discharges his/her duties

-Top mgmt's pay is a subject to debate

-They are paid too much

-Sometimes in the expense on lower level workers

-Traditional system is top manager's salary is tied to the size of the firm. This includes but not limited to

-Compensating professional workers

-Comparable worth

-Jobs may not be exactly equal but they very similar

-Issue of pay secrecy

-Two opposing views

-Open pay

-Sometimes there may be real inequities in pay because the mgmt has to hire someone urgently and did not have enough time negotiate

-Issues of inflation and salary compression

-Salary compression

-Salary and pensions should be inflation and cost of living adjusted