

## 3.1 COMPENSATION AND BENEFITS



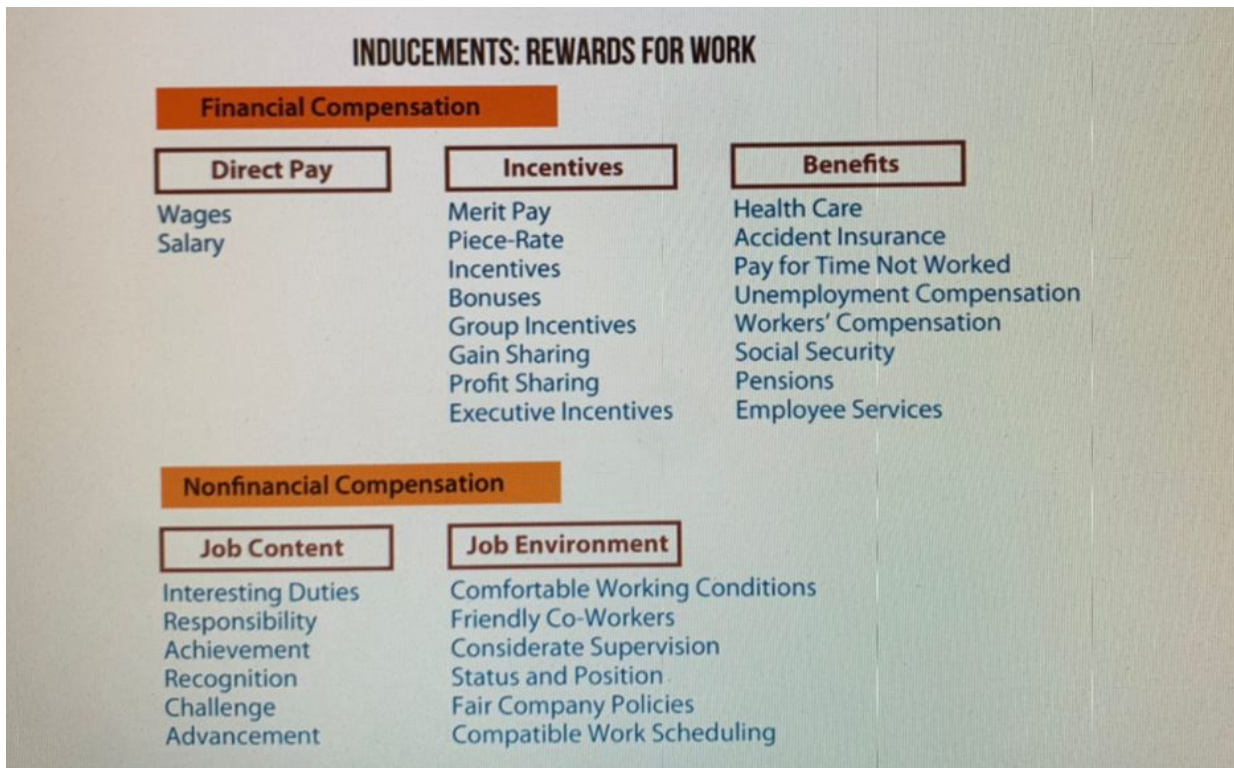
### Objectives

By the end of this section, you should be able to

1. Explain the relationship between compensation and other human resource functions (i.e., staffing, performance evaluation, training and development, employee relations)
2. Describe the strategic objectives of comparison
3. List and explain the three basic wage decisions

### Introduction

People are willing to work in exchange for the inducements or rewards they receive from working. An employment exchange occurs when there is a balance between the inducements offered by the organization and the contributions made by the employees. The inducements include all of the rewards that individuals obtain from work, including both financial compensation and nonfinancial rewards, as shown in [Exhibit 3.1](#). Financial compensation (also called remuneration) includes pay, financial incentives, and benefits, while nonfinancial rewards include characteristics associated with the job content and the job environment. These nonfinancial rewards are an important element in employee motivation and are often more important in motivating employees than financial incentives.



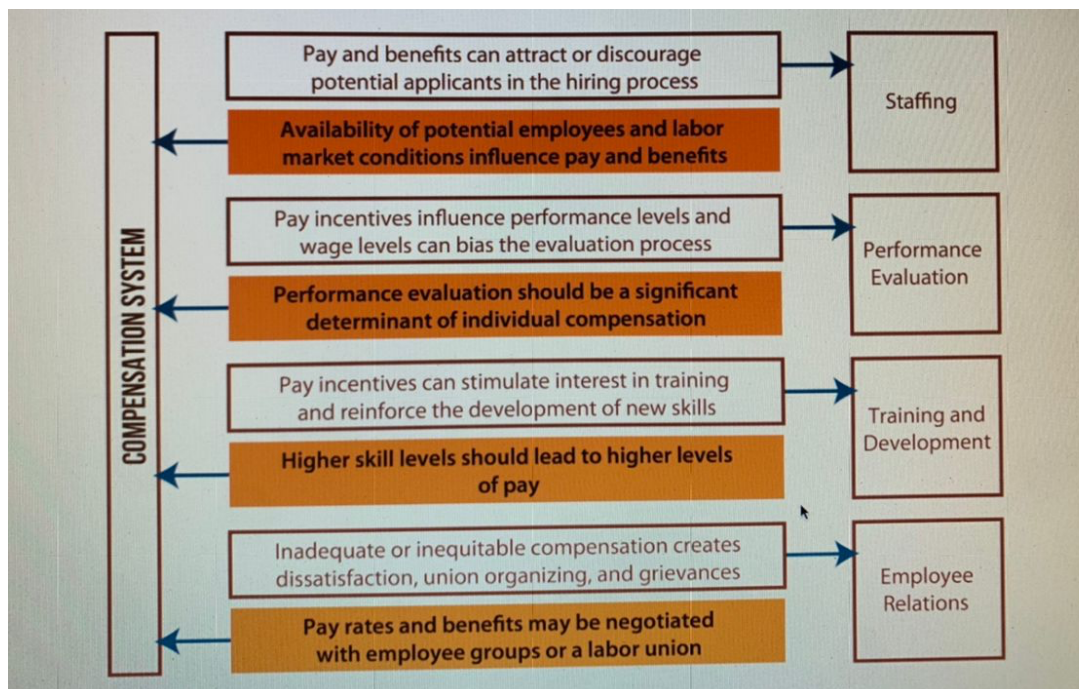
***Exhibit 3.1: Total Rewards: Financial and Non-financial***

Employers try to offer an attractive compensation package, consisting of base pay, incentives, and benefits, to attract employees and retain them. Employees are interested in all three components and consider each carefully when evaluating a job offer or considering a change in jobs. Employees also consider nonfinancial rewards, such as employment stability, the physical environment, commuting distance, the social environment in which the work is performed, and the nature of the work itself. For example, electricians who work for a manufacturing company may be satisfied with pay rates far below those received by independent electrical contractors because they realize that working for a manufacturing company represents more stable employment than independent contracting.

## Strategic Objectives of Compensation



Compensation administration is a strategic human resource function that has a significant impact on other human resource functions. Staffing, performance evaluation, training and development, and employee relations are all influenced by the compensation and they, in turn, influence compensation. The relationship between compensation and other human resource functions is shown in [Exhibit 3.2](#). The reason compensation has such a large impact on an organization's overall strategy is because it has such a strong influence on job satisfaction, productivity, labor turnover, and other organizational processes.



*Exhibit 3.2: Strategic Relationships Between Compensation and Human Resource Functions*

Total compensation consists of three major components: base pay, incentives, and benefits. In addition to practical considerations about what is legal and motivating, there are ethical considerations about what is just and fair.

All employers have similar compensation objectives regardless of whether they are profit, nonprofit, or government agencies and regardless of size. The basic objectives are to attract qualified employees, retain them, and motivate them to perform their duties in the most effective manner. When pay decisions are made, several different objectives have to be considered simultaneously. For example, the decision to raise the pay of all mechanics might make them happy and facilitate the hiring of mechanics, but this decision also could create several problems. It could destroy its conditions of equity with other craftworkers; it could increase the organization's labor cost individual incentives; and it could be illegal if the pay increase was offered during a union election. Therefore, all pay decisions should satisfy these six objectives.

1. Be legal: Compensation must be consistent with numerous federal, state, and local laws.
2. Be adequate: Compensation must be large enough to attract qualified employees to join the organization and stay
3. Be motivating: The compensation package should provide sufficient incentives to motivate employees to perform efficiently
4. Be equitable: The employees should feel that their compensation is internally equitable to other employees doing similar work in other organizations.
5. Provide security: Employees like to feel that their compensation is internally equitable relative to other employees in the organization and externally equitable relative to employees doing similar work in other organizations.
6. Be cost-benefit effective: The organization must administer the compensation system efficiently and have the financial resources to support it on a continuing basis.

Each of these objectives is important in developing a sound compensation system. As shown in [Exhibit 3.3](#) however, these objectives require employers to balance competing objectives. For example, high wages that are adequate and able to attract qualified employees are inconsistent with the objective of being cost-benefit effective. Furthermore, as wages become more secure, they become less motivating. Security is achieved by providing a fixed monthly income, regardless of performance, while motivation is achieved by paying for performance.



*Exhibit 3.3: Strategic Objectives of Compensation*

## Ethical Considerations in Compensation



In addition to practical considerations about what is legal and motivating there are ethical considerations about what is just and fair. Some of these ethical issues, such as the fairness of executive salaries and whether hourly employees are wage-slaves have been debated for many years. Other issues, such as the comparable worth controversy and mandatory health benefits are more recent.

### **Compensation Maxim**

An ethical principle, called a maxim, regarding compensation is

*Employees should be compensated primarily according to the requirements of the jobs they perform and how well they perform them, and secondarily, by labor market conditions (supply and demand) and the organization's ability to pay.*

Ethical issues concerning compensation are especially sensitive because money is such an important reason why people work. People expect to be treated fairly, and our concept of

fairness is greatly influenced by such issues as why managers deserve more than laborers, why older workers should be paid more than younger workers, and whether people who need more should get it.

### **Wages Versus Salaries**

A second issue is whether employees should be paid an hourly wage or salary. Some companies have tried to pay all of their employees on either an hourly wage or a salary basis to simplify the implementation of an electronic payroll system. Since supervisors and many non-supervisory white-collar employees receive monthly salaries, some argue that production workers should be paid similarly. However, some employers think production workers will abuse this situation: if production workers are paid monthly salaries regardless of their attendance, employers fear that they have higher rates of absenteeism and tardiness.

### **Pay Secrecy Versus Openness**

A third issue is whether a company's policy regarding pay levels should be open or secret. Some pay systems are entirely open to the public; anyone who asks is told. Some public agencies and school systems even go so far so publish complete lists of their employees and their employees and the salary each receives in local newspapers or on the internet. Some private employers also provide total wage transparency because they believe it makes recruiting new employees easier, by curtailing wage discussions, and it increases engagement.

At the other extreme is a pay-secrecy policy in which an individual's pay is known only by that person, his or her immediate supervisor, and the people in payroll. In some secret pay systems, the employee's contract clearly specifies that individual salaries are not to be revealed or discussed.

Between these two extremes are varying degrees of openness and secrecy.

## Three Wage Decisions



The development of a sound wage and salary system requires three basic decisions. Each decision answers a critical question regarding an organization's compensation program.

The **wage-level decision** concerns the overall level of an organization's competition. This decision answers the question, "How much do members of one organization receive relative to people performing similar work in other organizations?"

The **wage-structure decision** concerns the pay awarded to different jobs within an organization. This decision answers the question "How much money is paid for one job relative to other jobs within the same company?"

The individual wage decision concerns individual incentives and merit pay. This decision answers the question, "How much money does an employee receive relative to the money received by other employees who perform who similar work?"

These three wages decisions illustrate the kinds of wage comparisons that employees make when they evaluate their wages. Accountants in Company A, for example, company A has a higher or lower level of wages. The accountants also compare their wages with the pay of bookkeepers, computer programmers, and other members of Company A to learn whether the internal wage structure offers higher pay to jobs with more responsibility and greater difficulty. Finally, the accountants discuss their wages among themselves to determine whether each person's wage is the same or whether differences in wages are related to productivity, seniority, education, or something else.

## Self-assessment

1. I can explain the relationship between compensation and other human resource function (i.e staffing, performance evaluation, training and development, employee relations.)
2. I can describe the strategic objectives of compensation
3. I can list and explain the basic three basic wage decisions

### 3.2 The Wage-Level Decision



## Objectives

**By the end of this section, you should be able to**

1. explain the factors that most influence the wage-level decision
2. list and describe the various types of compensation surveys
3. explain the conditions necessary for do-it-yourself wage surveys to be successful

## Introduction

The wage-level decision primarily concerns the issue of pay adequacy: how much does one company pay relative to other companies with similar jobs? This is a policy decision made by top management. The organization can adopt a policy to match the going market rate for each job, or it can choose to lead the market or lag behind the market rate.

## Compensation Surveys



The major tool for making wage-level decisions is the compensation survey (also known as wage survey, salary survey, and pay survey). These surveys collect information about the compensation and benefits of other employees in similar industries or in the same geographical region. In a nonunion firm that has an average profit picture for its industry, the most compelling definition of an equitable wage is usually the going wage as determined by a wage survey. Both employees and managers are inclined to accept such a wage level as equitable.

There are three primary kinds of wage surveys.

1. surveys conducted by government agencies, especially the Bureau of Labor Statistics (BLS)
2. surveys conducted by professional organizations
3. surveys conducted by individual companies

### Government Surveys

Wage surveys are conducted by government agencies in many countries. These surveys typically report the occupational earnings and benefits of selected blue-and white-collar jobs in professions such as accountants, engineers, key entry operators, secretaries, machinists, mechanics, material handler laborers, and truck drivers.

### Private Industry Surveys

Several professional organizations conduct wage surveys of their members. For example, the Society for Human Resource Management collects wage information from its members and publishes a report showing salary levels analyzed by position, by geographic region, by experience, by education, and by company size.

### Company-Sponsored Surveys

The most frequently used surveys are those conducted by a firm or a group of cooperating firms. In large organizations, a full-time staff person or a task force may be responsible for designing and conducting wage surveys. In metropolitan areas, numerous business associations- such as an employers' association, an industrial relations council, or a chamber of commerce--may share wage information.

For these do-it-yourself wage surveys to be useful, four conditions must be met.

1. **Reciprocity**: Organizations conducting surveys must be willing to share their wage information in exchange for the information they collect from others.
2. **Anonymity**: The information should be reported in a way that does not identify the wages of individual organizations.
3. **Low cost**: The method used to collect and analyze the data must be efficient and inexpensive.
4. **Timeliness**: The information must be current, especially in times of high inflation.

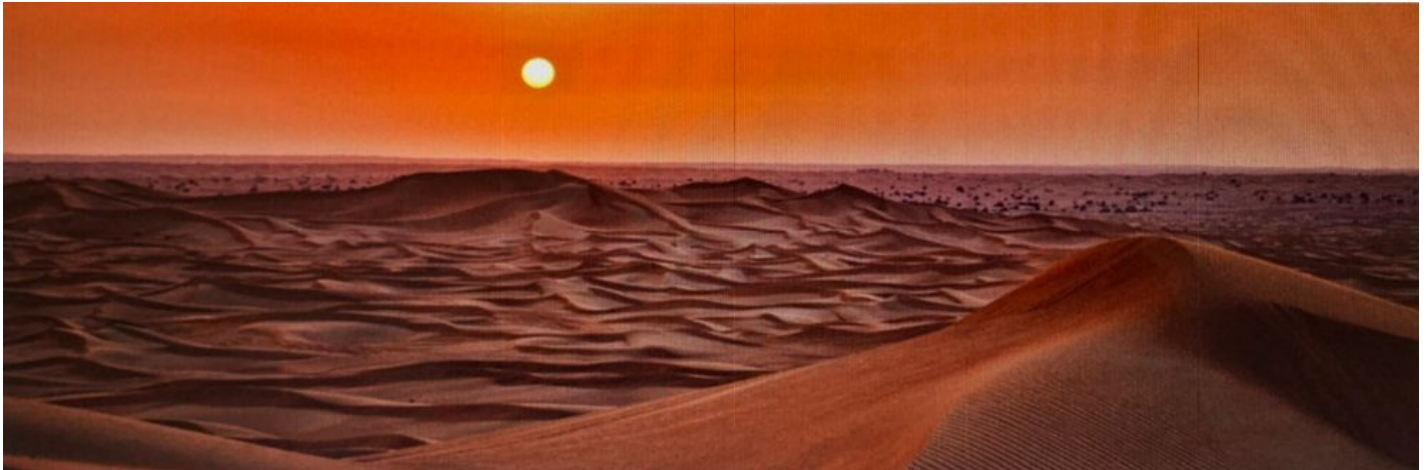
The major advantage of a do-it-yourself survey is that it can be designed to accommodate an organization's unique needs. If any organization is considering a pay increase for certain jobs, it can obtain timely information on these jobs by conducting a wage survey. Information from published surveys might not be available for the specific jobs in question, or, if it is, it might be two or three years old.

The major advantages of published surveys are their low cost, large sample size, and degree of sophistication. Many published wage surveys can be obtained at no cost to a company because they appear in journals and published reports. Most published wage surveys are based on sample sizes that are much larger than an individual organization could hope to survey economically. The survey procedures used by professional organizations have become sophisticated in recent years, and thus the information collected by these organizations is reliable and useful.

## Self-assessment

1. I can explain the factors that most influence the wage-level decision.
2. I can list and describe the various types of compensation surveys.
3. I can explain the conditions necessary for do-it-yourself wage surveys to be successful.

## 3.3 Job Evaluation Methods



### Objectives

**By the end of this section, you should be able to**

1. explain the purpose of job evaluation
2. describe and compare the job ranking, classification, point, factor comparison, and Hay methods of job evaluation
3. define key (or benchmark) jobs, as used in the point method
4. explain the procedure for establishing pay grades and ranges
5. describe how to calculate a compa-ratio and explain how compa-ratios are useful
6. define red-circle rates (and blue or green)
7. explain the factors generally considered in determining the individual pay rate

# Job Evaluation



The systematic approach of determining the relative worth or value of each job in an organization is referred to as **job evaluation**. The basic purpose of job evaluation is to eliminate pay inequities and create a wage structure that identifies appropriate pay ranges for different jobs. The relative worth of each job is established by identifying factors that define "worth" and by comparing the requirements of each job with these factors.

Determining how much each job should be paid relative to other jobs in the organization is called the wage-structure decision. Here the amount of money is based on the job demands and not on how well the job holder performs (although the wage structure must allow for individual variances based on performance, experience, and seniority). All jobs in an organization are not worth the same rate of pay. Some jobs require greater skill and mental ability than others, some require greater physical effort, and some entail considerably more responsibility. The major objective of the wage-structure decision is to provide equal pay for jobs of equal worth and an acceptable set of pay differentials for jobs of unequal worth.

Some companies rely almost exclusively on wage surveys to make wage-structure decisions. However, wage surveys alone are not adequate because organizations usually have unique jobs for which there are no surveys, and wages based on wage surveys do not guarantee internal equity among jobs.

Many different job evaluation systems have been developed and used in various organizations. Most of these systems consist of one of these methods or a combination of them.

- Job ranking
- Classification
- Point method
- Factor comparison

Ranking and classification are considered non-quantitative methods because they do not produce a precise numerical score for each of the jobs being evaluated. Instead, these methods produce a

position for each job in a job-worth hierarchy. Ranking and classification methods are also called "whole-job" evaluation methods because they determine the relative worth of jobs on the basis of an overall, or global, assessment of the content of the jobs. The factor comparison and point methods are quantitative methods that evaluate the content of jobs on a factor-by-factor basis and produce a precise numerical score for each job.

## Ranking Method

The simplest method of developing a wage structure is to have the job-evaluation committee rank the jobs from highest to lowest in value. Although the committee could perform three or four rankings based on three or four different factors, the jobs usually are ranked only once according to their overall worth. The advantages of the **job-ranking method** are that it is the simplest of all the evaluation methods and it requires little time or paperwork.

## Classification/Grading Method

The classification method (or predetermined-grading method) consists of establishing a predetermined number of grades or job classes. The classification process specifies a number of grades beforehand, and broad descriptions then are written of the types of jobs to be placed in each of the grades. Next, each job is evaluated by comparing its description with the descriptions for the grades, and it is then placed into the appropriate grade. The job grades range from high to low, and each grade has a verbal description with examples of the kinds of jobs that fit into it.

## Point Method

The **point method** is the most frequently used job evaluation method because it is not very difficult to administer after it has been established and the decisions are defensible. The point method consists of analyzing the content of jobs from the written job descriptions and then allocating points for specific factors. The number of points assigned to each job determines a range of pay for that job. The procedure for developing the point method consists of six steps.

1. **Identify key jobs.** A list of 12 to 20 **key jobs** (sometimes called benchmark jobs) that are equitably paid is identified. The wage structure for the entire organization will be based on these key jobs. Wage surveys help to identify key jobs.

2. **Identify job factors used to determine pay levels.** These factors are called **compensable factors** **because** they are the important factors for which compensation is given; they represent the critical dimensions that would justify paying one job more than another if all else were held constant. Some of the most frequently used factors include responsibility, physical demands, hazards, skill, working conditions, supervisory responsibilities, and mental requirements.

3. **Weight the factors according to their contribution to the overall worth of the job.** The most heavily weighted factors tend to be responsibility, knowledge, education, experience, complexity of duties, and supervisory responsibility.

4. **Divide each job factor into degrees that range from high to low and assign points to each degree.**

**5. Assign degrees to the job factors of each key job, and calculate the total points for each job by summing the points assigned for each factor.**

**6. Develop a wage curve using key jobs.** The wage curve is generally a straight line with the points placed along the horizontal axis (the x-axis) and pay along the vertical axis (the y-axis). After the wage curve has been drawn, the total points are divided into labor grades, or job classes, and a range of pay is assigned to each grade.

Although most point systems have 15 to 20 labor grades, some have suggested reducing this number. This is accomplished by creating very wide labor grades and is called **broadbanding**. Broadbanding reduces the number of job classifications but increases the pay range. The advantage of broadbanding is that it allows for more jobs to fall in the same pay classification, which facilitates job rotation in work teams. If the grades are wide enough, all team members might be in the same labor grade, which encourages them to freely rotate jobs.

Once the wage structure has been established using the key jobs, the appropriate level of pay can be determined for other jobs by calculating the number of points each job should receive and using the pay grades to know how much these jobs should be paid.

## **Factor Comparison Method**

The factor comparison method is conceptually similar to the point method but slightly more complex, and because of its added complexity, it is not as popular as the point method. The factor-comparison method consists of identifying job factors (such as mental demands and responsibility) and assigning monetary amounts to each job on each factor.

## **Guide Chart-Profile Method (Hay method)**

The Hay Guide Chart-Profile Method is a job evaluation system that is basically a factor comparison system although it is also very similar to the point method since it uses points. The Hay system is used by more than 5,000 employers worldwide, including many of the largest corporations. This method uses three compensable factors.

- Know-how
- Problem solving
- Accountability

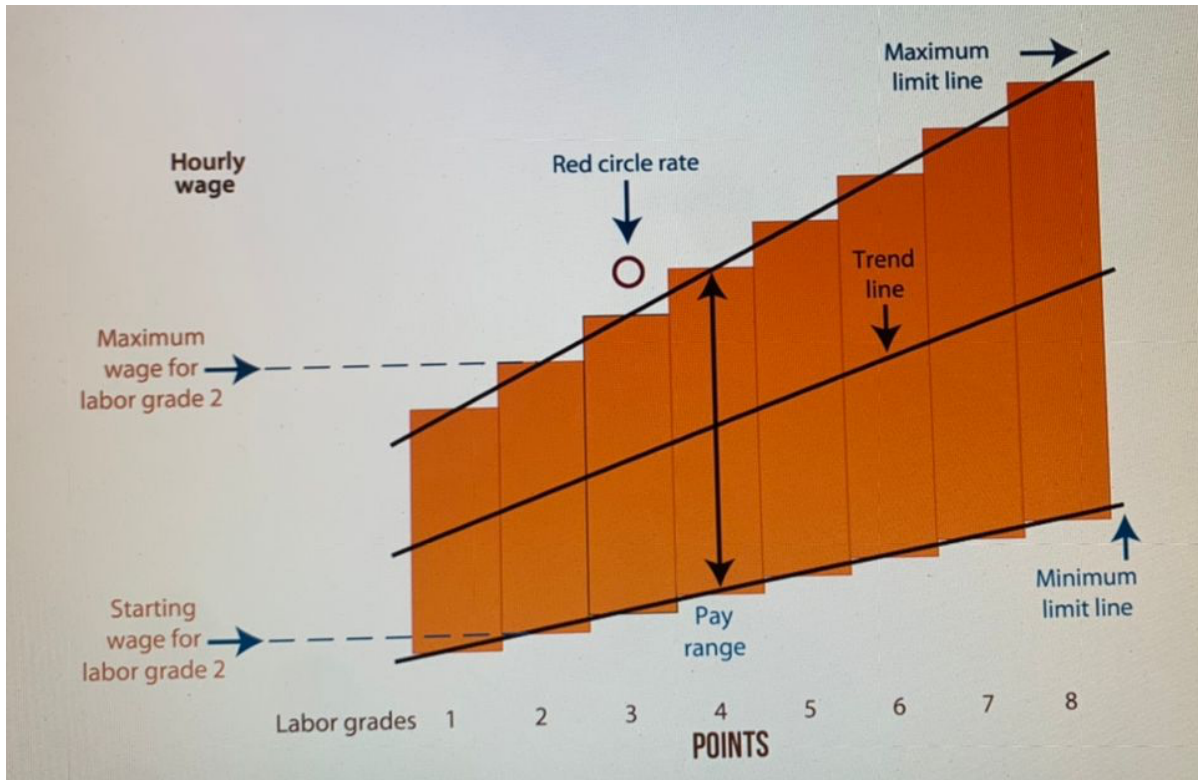
For each of these compensable factors, the Hay method uses two-dimensional matrices showing the number of points assigned to that factor. The points are determined by comparing the job description with the appropriate rows and columns for each matrix.

## Pay Grades and Pay Ranges



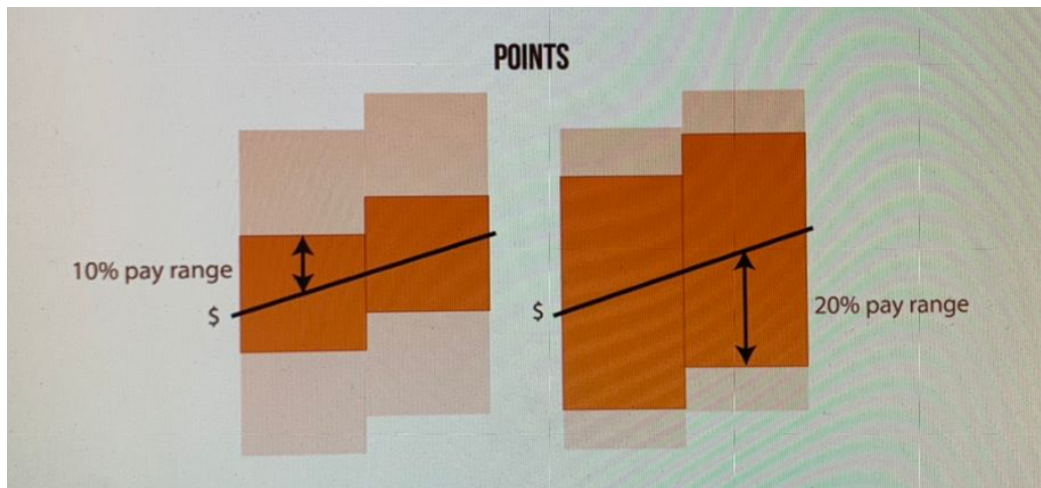
After the jobs have been arranged in a hierarchy of job worth, specific amounts of pay need to be associated with them. The process of placing a dollar value on the worth of a job is referred to as **job pricing**. In pricing a job, most organizations assign a pay range rather than a specific fixed amount to allow for individual differences in performance. Similar jobs are grouped together into pay grades. Job pricing involves making decisions about **pay ranges** and **pay grades** in addition to developing a plan for adjusting the wage structure as necessary because of inflation. Developing the pay ranges is part of the wage-structure decision.

When a wage structure is developed, jobs are grouped into pay grades (also called a labor grade or job class) according to the points associated with them, and a range of pay rather than a specific wage is usually assigned to each pay grade to reward individual performance. By grouping similar jobs into a limited number of pay grades, rather than dealing with dozens of separate jobs, companies can simplify the administration of their compensation system. Pay grades are illustrated in [Exhibit 3.4](#). An organization could have fewer pay grades by expanding the width of each grade. How many pay grades a company should have can be decided arbitrarily by assigning a fixed width to each labor grade; however, a better procedure is to plot each of the jobs on a chart and see if natural clusters of jobs exist.



*Exhibit 3.4 Illustration of Pay Grades Constructed Along the Wage Curve*

Most pay grades have pay ranges that are 10 to 20 percent above and below the midpoint of each grade, called the range spread. The pay grades shown in [Exhibit 3.4](#) have a range spread of 30 percent (15 percent above and below the midpoint of the wage line) to allow for individual incentives. A narrow pay range, such as ten percent above or below the wage curve, provides a much smaller incentive than a wide pay range, such as plus or minus 20 percent. Exhibit 3.5 illustrates these two pay ranges.



**Exhibit 3.5: Illustration of Two Pay Ranges**

New employees usually are paid the minimum of a pay range. Advancement within the pay range typically is based on performance and years of service. A reasonable pay policy is to allow employees to advance from the bottom of a pay range to the midpoint based upon their years of service; advancement to the top of the pay range is only permitted for those who are outstanding performers. This policy allows long-term employees who are average performers to be paid more than new employees and still have some incentive to become outstanding employees.

A useful number for analyzing how people are paid within each pay range is called a **compa-ratio**. This number is calculated by dividing a person's wage rate by the midpoint of the pay range and multiplying by 100. Someone earning \$9.00 per hour in a pay range with a midpoint of \$8.00 per hour would have a compa-ratio of 112.5 ( $9 \div 8 \times 100$ ). A pay range of  $\pm$  20 percent would have compa-ratios between 80 and 120.

Compa-ratios can be calculated for groups and used for budgetary control purposes or to investigate discrimination. Budgetary control can be imposed by not allowing supervisors to make pay increases that exceed a specified compa-ratio. If the compa-ratio of one minority group is significantly different than the compa-ratio of another group this difference indicates the possibility of pay discrimination. This difference ought to be examined to see if pay needs to be revised or if it can be explained by differences in seniority or performance.

In some compensation systems individual pay levels are based on step increases. The step increases for one labor grade are illustrated in Exhibit 3.6. These step increases are based on performance and length of service. The exhibit shows a labor grade containing six step increases and three performance levels. The starting salary for this labor grade is \$11.00, and the maximum salary is \$16.98. To reach the maximum, an employee must have a high-performance level and must advance through all six steps of the labor grade. The step increases can be automatic-advancing one step each year--or variable. Variable periods of time for the step increases provide an additional means for supervisors to control pay increases. Supervisors not only evaluate performance but also decide when it is appropriate to advance each employee to a higher step within the labor grade.

**Exhibit 3.6:**

Performance Level	STEPS					
	1	2	3	4	5	maximum 6
High	13.30	13.97	14.67	15.40	16.17	16.98
Medium	12.10	12.58	13.08	13.60	14.15	14.72
Low	11.00	11.35	11.65	12.00	12.40	12.75

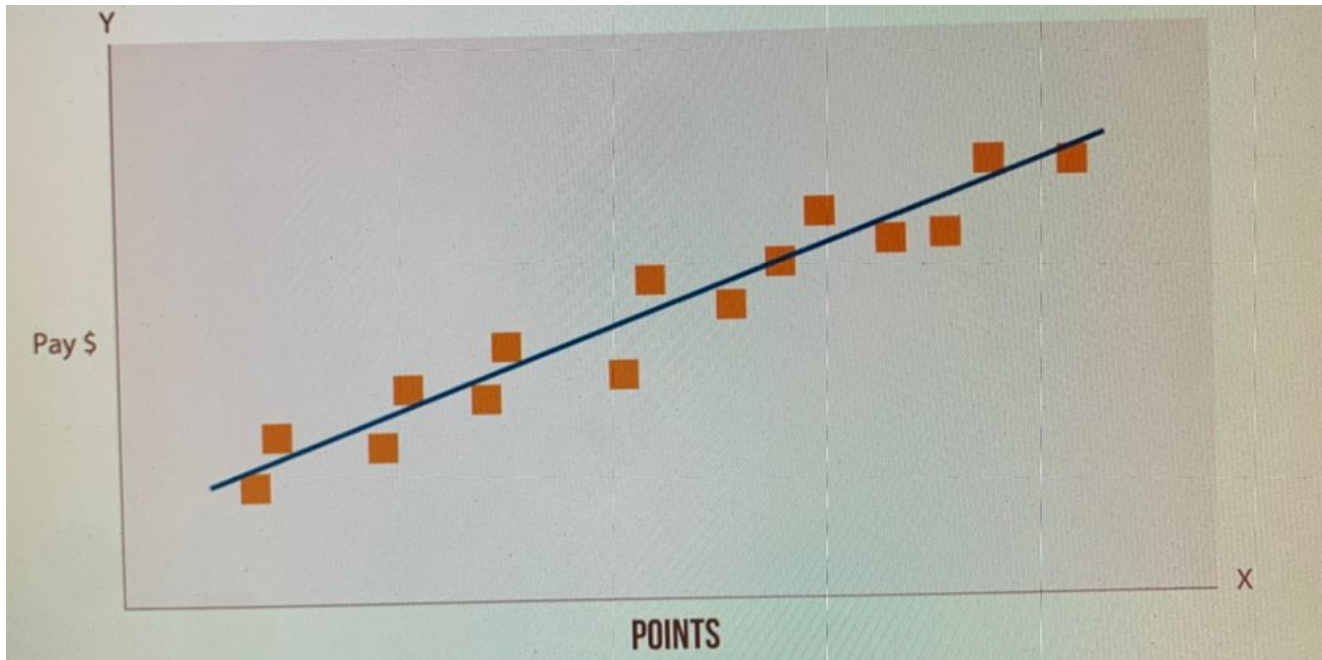
Advancement within a labor grade also may be based strictly upon performance. To help supervisors make decisions regarding pay increases, the human resource department frequently provides **merit increase guidelines** showing the increases for each performance rating. Examples of these guidelines are presented later under Merit Pay Systems.

The purpose of following carefully developed **merit pay** guidelines is that it prevents having outstanding employees reach the top of their labor grade too soon. When employees reach the top of their labor grade, they are said to be "**topped out.**" Once employees are topped out, they can only receive pay increases by being promoted to higher level jobs or through cost-of-living increases that raise the entire wage curve. Merit increases represent one of the many important ways by which individual performance can be recognized.

## Red-Circle Job Rates



After all of the jobs have been evaluated, they can be plotted on a scatter diagram, as shown in Exhibit 3.7. Hopefully, each job will fall within the pay range for its particular pay grade. Jobs that fall outside the pay ranges present special problems. These jobs are referred to as **red-circle** rates because they are either overpaid or underpaid.' (Sometimes underpaid jobs are called **blue circle** or **green circle rates.**)



***Exhibit 3.7: Wage Curve Based on 15 Key Jobs***

Underpaid jobs are easy to correct since their pay rates can be raised immediately. Overpaid jobs are more difficult to correct. An illustration of an overpaid job is shown in [Exhibit 3.4](#). The job is represented by a dot with a circle around it, indicating that it is a red-circle rate. The employees performing this job have been earning more than the maximum amount that this job should pay. One obvious solution to the problem is to reduce the wages for this job. However, pay cuts usually produce bad feelings unless employees understand the job-evaluation procedure and agree that their jobs are overpaid. Large pay cuts force employees to suddenly change their standard of living, something that is not easy to do.

A second approach to handling overpaid jobs is to notify the employees that their jobs are overpaid and that their pay will be systematically reduced by small increments over a period of time. If the employees understand the job-evaluation procedure and are given enough time to change their standard of living, this method will not produce as much dissatisfaction as an immediate pay cut.

A third approach is to hold the rates constant until inflation and other cost-of-living increases have increased the rest of the wage curve. These jobs are excluded from normal cost-of-living increases when pay rates are adjusted. Overpaid jobs can be brought back into line fairly quickly during times of high inflation.

A fourth approach is to redesign the job, usually by adding more responsibility. If the job is redesigned, it may no longer be overpaid. Finally, a fifth approach is to promote overpaid workers to higher-level positions. This is an ideal solution if the employees have the proper qualifications for promotion.

## Individual Pay Rate Determination



The third major decision in designing a compensation system is the individual wage decision. This decision concerns the relative pay of individuals who perform similar jobs in the same company. If workers perform similar jobs and their performance and experience are equal, it is reasonable to pay them all the same. But if some are more productive or have more experience and training, then they should receive more money.

The individual wage decision influences feelings of job satisfaction and pay equity. Intense feelings of inequity can be created by unfavorable comparisons between co-workers regarding their pay. Higher-producing employees think they should receive higher pay than co-workers who produce less. Individuals who work together usually know how much each is paid, and they compare their performances.

### **Performance**

Performance differences are clearly the most reasonable and well-accepted justification for paying differential amounts. Most individuals accept the principle that workers who produce more should receive higher pay.

### **Experience**

A common justification for giving some employees more money is that they have more experience. Years of experience are often related to productivity, and paying for experience is sometimes just another way of paying for performance. As workers accumulate more years of service, they become more productive.

### **Seniority**

Pay differentials based on seniority or length of service are found in many compensation systems. It is not uncommon for a wage decision to reflect the belief that long-term employees should be rewarded for faithful service even though their present performance might not justify pay increases.

## **Potential**

Occasionally, organizations pay higher than average wages to individuals who demonstrate outstanding potential. Many new employees are paid higher than normal starting salaries if they have the potential for becoming supervisors or high-level managers. Since recent college graduates have not had opportunities to demonstrate potential, the decision to pay them more is generally based on grades in college, leadership experiences, professional association memberships, and other academic activities.

## **Self-assessment**

1. I can explain the purpose of job evaluation.
2. I can describe and compare the job ranking, classification, point, factor comparison, and Hay methods of job evaluation.
3. I can define key (or benchmark) jobs, as used in the point method.
4. I can explain the procedure for establishing pay grades and ranges.
5. I can describe how to calculate a compa-ratio and explain how compa-ratios are useful.
6. I can define red-circle rates (and blue or green).
7. I can explain the factors generally considered in determining the individual pay rate.

## 3.4 Incentive Compensation Systems



### Objectives

By the end of this section, you should be able to

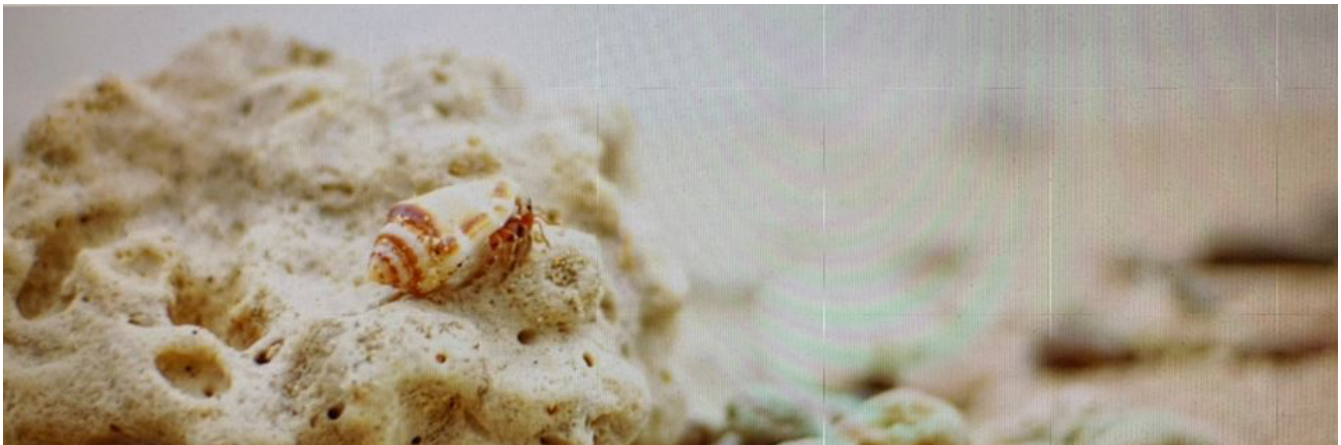
1. describe the various methods for providing individual pay incentives to employees
2. explain skill-based pay and pay-for-knowledge programs
3. explain profit sharing and gainsharing

### Introduction

Designing an effective incentive program is an important strategic human resource issue. For organizations to compete successfully in a dynamic economy, they must have highly motivated employees who are dependable and competent. Such a commitment to excellence comes from a combination of both intrinsic and extrinsic rewards.

Incentive compensation plays a strategic role in increasing organizational effectiveness. Intense foreign competition and stagnant productivity growth have forced executives to explore ways of rejuvenating productivity. One of the most popular recommendations is to offer financial incentives that are directly tied to productivity. These incentive programs, loosely referred to as **pay-for-performance** or **variable pay**, have significantly increased productivity in companies where they have been installed and surveys generally find that they also have a positive impact on employee morale. There are numerous methods of rewarding individual efforts. Most pay-for-performance plans are either individual, group, or company-wide incentive plans or some combination of all three.

## Individual Incentives



### Merit Pay

The most popular pay-for-performance method is the merit pay increase. This method consists of periodically evaluating the performance of all employees and giving commensurate pay increases. High performers receive larger merit increases than low performers. The merit pay increase is awarded in addition to cost-of-living increases or pay increases for additional education or years of service.

The merit increase can be treated as either an addition to base pay or a one-time individual bonus. Some companies have been concerned about the long-term consequences of increasing the base pay of their employees with every merit pay increase and have adopted lump-sum merit increases. These lump-sum payments, awarded at the end of a quarter or the year, are treated as one-time rewards in recognition of outstanding performance and do not change the employee's base pay.

Merit pay increases are relevant to all jobs paid a fixed wage or salary. The most important requirement for

an effective merit pay incentive program is measuring performance against clearly defined objectives. But even when performance can only be evaluated subjectively, most employees still believe that pay increases should be related to performance. Although merit pay is generally intended to reward employees for their productivity, other aspects of their performance may also be recognized, such as attendance, positive work attitudes, or initiative.

Supervisors generally are responsible for evaluating performance and recommending merit pay increases with the assistance of guidelines prepared by the human resource department. A merit

increase guideline showing both a fixed percentage increase and a discretionary range increase is presented in [Table 3.1](#).

Merit Increase Guidelines: Fixed Increase or Discretionary Increase				
Table 3.1				
Performance Rating	Expected Number of Employees <sup>2</sup>	Fixed Increase Amount	Discretionary Increase Range	
<i>Outstanding</i> : truly exceptional performance	1 in 10	12%	10-15%	
<i>Excellent</i> : constantly exceeds standards	2 in 10	8%	7-9%	
<i>Good</i> : occasionally exceeds standards	4 in 10	5%	4-6%	
<i>Average</i> : occasionally meets standards	2 in 10	3%	2-3%	
<i>Fair</i> : marginal performance	1 in 10	1%	0-1%	

Another method of calculating merit increase percentages is the compa-ratio approach. This approach adjusts the recommended pay increases for each person according to where that person is within the pay range: people at the top of their pay range receive smaller percentage increases than people at the bottom. This adjustment is intended to keep the wage amounts within the pay range and preserve the integrity of the pay range. [Table 3.2](#) provides an illustration of a compa-ratio approach to salary increases.

Salary Increase Matrix using the Compa-ratio Approach				
Table 3.2				
<i>Compa-ratio</i>				
Pay Range	0.0 - 0.89	0.90 - 0.99	1.00 - 1.09	1.10 - 1.20
Outstanding	7.0 - 8.0%	6.0 - 7.0%	5.0 - 6.0%	4.0 - 5.0%
Above Average	5.0 - 6.0%	4.0 - 5.0%	3.5 - 4.5%	3.0 - 4.0%
Average	3.0 - 4.0%	2.5 - 3.5%	2.0 - 3.0%	1.5 - 2.5%
Below Average	1.0 - 2.0%	0.8 - 1.8%	0.6 - 1.6%	0.4 - 1.4%
Unsatisfactory	0%	0%	0%	0%

The following conditions must be met before an effective merit pay program can be established.

1. Individual differences in job performance must be large enough to be worth the time and effort for management to measure such differences and to relate them to pay.
2. The pay range should be sufficiently wide (15 to 20 percent above and below the midpoint of the pay range) to allow for adequate differentiation of pay based on performance.
3. Differences in individual job performance should be measurable.

4. Supervisors and managers must have the competence to evaluate employee performance and provide meaningful feedback.

5. Management must be committed, and employees must be receptive to making distinctions among employees based on performance.

## Sales Commissions

Salespeople are often compensated using a form of incentive pay called a sales commission. The employee generally receives a fixed percentage of the sales proceeds from the merchandise or services they sell. Commission pay can be structured in a variety of ways, including the options listed below.

- ***Straight Commission:*** Straight commissions are sometimes called "commission-only," because the only pay employees receive. There is no regular wage or salary. All compensation is calculated as a percentage of total sales. This sales commission structure provides the least financial security but the highest level of incentive.
- **Bonus Commission:** Bonus commissions are given to employees in addition to their regular wages or salary. These bonuses are usually based on meeting established sales quotas. This sales commission structure provides the most security, because employees receive their full regular pay regardless of their performance. It also provides incentive to the employees to reach the sales volume required to receive the bonus.
- **Salary plus commission:** This is the most common sales commission structure. Employees have a base structure but also receive commissions based on a percentage of their total sales. This sales commission structure provides both security and incentive.
- **Tiered commission:** A tiered commission structure involves graduated percentages tied to higher levels of sales volume. For example, a salesperson may receive five percent for the first \$50,000 in sales, 10 percent for the next \$50,000, and 20 percent for sales exceeding \$100,000. This commission structure provides substantial incentive for high performers.
- **Variable commission:** In a variable commission system, employees are compensated different percentages for different types of sales. For example, an employee may be paid a higher rate for selling a hard-to-sell item or service or selling in a new or difficult market.

## Bonuses

Some employers prefer using bonuses to reward performance rather than merit pay increases because bonuses do not raise base pay levels year after year; bonuses must be re-

earned each year. Bonus plans also provide greater discretion than formal merit pay plans for executives to reward employees since they can decide whether or not to grant bonuses and if so how much.

Employee bonuses may include the following.

- **Signing bonus:** Organizations use signing bonuses, sometimes called sign-on bonuses, as an incentive for candidates to join the company. Signing bonuses are often used to attract star performers and to staff hard-to-fill positions. Sometimes their purpose is to make a compensation system appear more attractive, especially if the annual salary is lower than the candidate might expect, or to make up for expensive relocation costs or lost benefits from the previous job. Signing bonuses often include agreements that require new employees to stay with the organization for a certain amount of time, or they must return the bonus.
- **Performance bonus:** Performance bonuses may be discretionary or nondiscretionary. Discretionary bonuses are awarded at the sole discretion of the employer. The timing, the amount, and the criteria for receiving a bonus are not known or determined in advance. Nondiscretionary bonuses are based on specific pre-determined criteria. They may be tied to either individual performance levels, the performance of the work group, or the success of the entire company. Employees earn the bonus if the criteria are met, which usually involves exceeding performance standards or meeting productivity goals.
- **Project bonus:** Project bonuses, which are also called milestone or task bonuses, are used to reward an employee, or a group of employees, for completing an important project. They may be tied to a particular timeline and have specific quality requirements.
- **Referral bonus:** Some employers offer a referral bonus to employees for referring friends or former coworkers who are hired to fill job openings. Most employers pay their referral bonus after the new employee has been with the organization for a specified period of time, usually several months or up to a year.
- **Retention bonus:** Organizations sometimes offer retention bonuses to give certain employees incentive to stay with the company because of special circumstances. For example, employees may be offered a retention bonus to stay on during times of uncertainty, such as through mergers or acquisitions. Key employees may also be offered a bonus to remain with the company until an important project is completed.
- **Year-end or holiday bonus:** Although bonuses can be given at any time of the year, many employers distribute them at the end of the calendar year and refer to them as holiday bonuses. These bonuses are typically not tied to individual performance. While most

holiday bonuses are cash, some employers give gift cards, travel vouchers, or food items, such as turkey or ham.

Bonuses are generally perceived as a valuable way to reward good performance and improve employee morale. Employers should design their employee bonuses to align with the organization's strategic objectives and to reward desired behaviors and performance levels.

## **Piece-rate Incentives**

Under a **piece-rate** incentive system workers are paid a fixed amount for each item produced. Piece rates have existed for many years, and several theorists have advocated paying workers on a piece-rate basis. The most ardent advocate of this incentive system was Frederick W. Taylor, the founder of scientific management. In his 1911 book, *Principles of Scientific Management*, Taylor argued that the best way to motivate workers to higher production was to offer them additional money for producing more. Taylor showed how higher productivity meant more income for the worker and greater profits for the company. As a rule of thumb, the advocates of scientific management claimed that piece rates established by time-and-motion studies increased productivity at least 25 percent over “day work”.

Straight piecework is the oldest and most common incentive-wage plan, and it is used in over half of all incentive-wage plans. Originally, straight piecework plans paid a fixed rate per piece regardless of how little a worker produced. Today, most straight piecework plans have a guaranteed base rate that is at least as high as the minimum-wage rate.

Taylor advocated a **differential piece-rate plan**. This plan pays a lower rate to workers who produce less than the standard amount and a higher rate to workers who exceed the standard. This plan significantly rewards productive workers since they are not only paid for producing more pieces but their rate of pay is higher for each piece (normally 20 percent higher than the lower rate). Taylor intended this system to encourage slower workers to quit and find more suitable employment. A comparison of straight piece rates and Taylor's differential piece-rate plan is shown in [Exhibit 3.8](#).

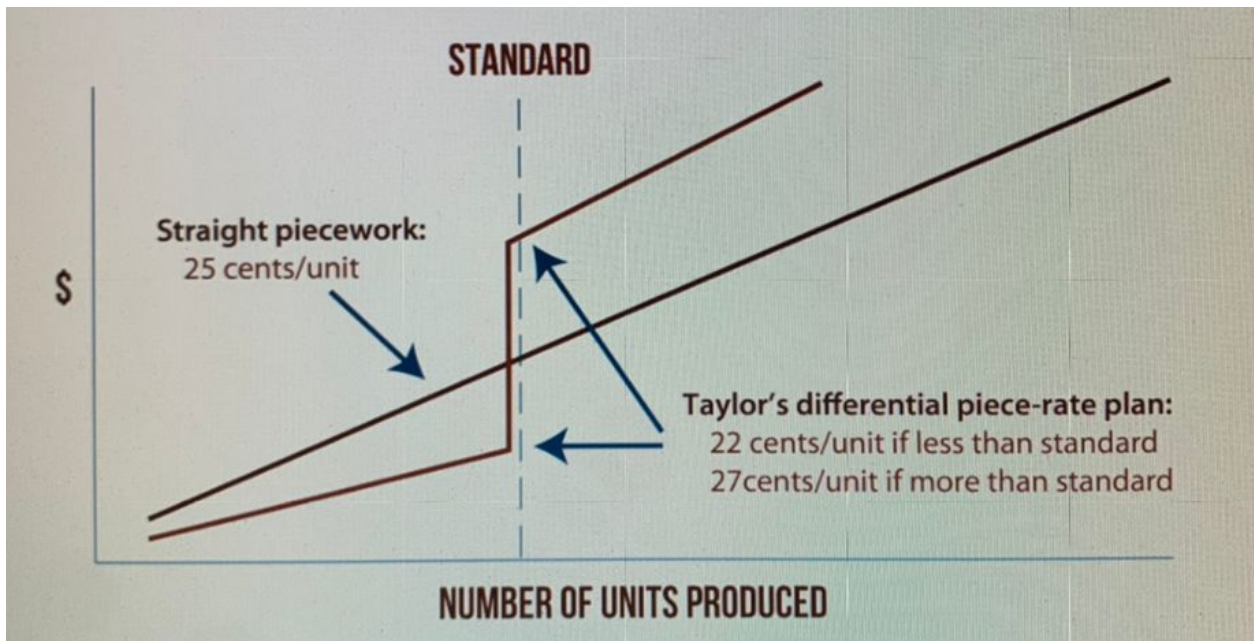


Exhibit 3.8: A Comparison of Straight Piecework and F.W Taylor's Differential Piece-Rate Plan

## The Standard Hour Plan

The standard hour plan is another form of incentive piece rates. This plan, which is sometimes called a 100 percent premium plan, usually requires the establishment of performance standards through time-and-motion studies. On a standard hour plan, workers are paid an hourly wage, but the hour is measured in units produced rather than in minutes. If workers perform the standard amount each hour, they receive the hourly wage, but if they produce above standard, they receive proportionately more money. Standard performance is usually set at 60 units of work per hour, with a unit of work equaling what a worker should produce in one minute. Therefore, if a worker consistently produces 90 units of work per hour, the worker receives one-and-one-half hour's pay for each hour worked.

## The Halsey Premium Plan

An incentive plan similar to the standard hour plan is the Halsey premium plan, developed in the 1880s by engineer, Fredrick A. Halsey. With this plan the workers receive a

guaranteed hourly wage plus a percentage (33 percent was recommended) of the wage for any time saved. The actual production standards are determined by past performance rather than by time-and-motion studies. For example, if a worker is paid \$12.00 per hour and the task usually requires eight hours, the worker receives an additional \$4.00 per hour for each hour saved under eight hours. A worker who completes an eight-hour task in seven hours receives a \$4.00 premium.

## **Skill and knowledge Based Pay**



A valuable strategy for increasing organizational flexibility and rewarding team efforts is through skill-based pay or a pay-for-knowledge program. These programs reward employees for their ability to perform an array of related tasks or skills rather than for the actual work performed. Rewarding employees for their ability rather than for their productivity is an important difference between these incentives and pay-for-performance incentives.

In a skill-based pay program, jobs are grouped into job families according to the kinds of related skills required to perform them. In pay-for-knowledge programs, the job families are grouped according to knowledge requirements. Employees are paid according to the skills or knowledge they have demonstrated. New employees are paid the entry level wage rate, and they receive pay increases as they acquire additional skills or knowledge. Employees who have mastered additional skills or knowledge receive added pay for this mastery even when they are not currently using them.

Skill-based pay and pay-for-knowledge programs significantly improve work-force flexibility and the capacity to respond to changing demands and schedules. These programs are especially valuable for work teams that perform complex operations requiring a variety of skills or knowledge. When employees are cross trained and capable of performing a variety of skills, they can be moved more freely from job to job in a work group to do what

needs to be done. Multi-skilled teams contribute to innovation and new product development. This flexibility is especially important in a union setting where restrictive work rules often prevent shifting employees to different jobs. Employees are also motivated to learn new skills and apply them. Employees accept responsibility for their own training, which makes training more effective.

Skill-based pay and pay-for-knowledge programs must be designed to fit the requirements of the job and the company's overall compensation program. Different models have been used in the design of these programs.

1. The *stair-step model* assumes that the requisite knowledge and skills can be arranged hierarchically, such that more complex skills or knowledge builds on earlier skills or knowledge. Employees begin on the first step and receive higher pay rates as they advance sequentially to higher steps.

2. The *building blocks model* assumes that the various skills and knowledge are discrete and can be acquired in any order. Employees usually begin in an entry-level block of jobs and their mastery of other blocks might be determined by the needs of the organization or their own interests.

3. The job-point accrual model is similar to the building blocks model. It is typically used when there are many different skills or ideas employees may acquire and they are not equally valuable. Point values are assigned to each skill or knowledge area and employees accumulate points as they master them. As with other models, employees cannot receive partial credit for partial skill or knowledge. Either they have it and can demonstrate it competently, or they need more training time.

## **Differential Pay**



In addition to their base pay, employees often receive additional compensation for factors that make work more difficult or unpleasant. These wage differentials are considered an important and essential part of making compensation fair.

### **Overtime**

The Fair Labor Standards Act requires employers to pay time and one-half for hours worked in excess of 40 hours per week. Some employers provide additional overtime payments, such as paying overtime for more than eight hours a day and paying double time for more than ten hours a day or 50 hours a week.

### **Shift Pay**

Since night shifts and swing shifts are less desirable and more disruptive to an employee's life, companies often pay a shift differential, such as an additional 50 cents per hour.

### **Hazard Pay**

Employers who have jobs that are especially hazardous typically provide a hazardous pay differential to compensate employees for the added risk of performing them and also to remind employees of the need for greater caution.

### **On-call Pay**

Employees who are on-call receive their normal hourly wage if they are restricted in their ability to move about and not free to plan their own activities. If they are free, however,

employers often pay on-call employees a premium anyway even though it is not required by the FLSA.

### **Call-back Pay**

Employees who are called back to work because of emergencies often receive an additional premium to compensate them for the inconvenience and disruption this creates.

### **Geographic Differentials**

Employees who live in or are transferred to locations with a high cost of living may receive a geographic differential to offset the high cost of living.

### **Weekend and Holiday Pay**

Employees who are required to work on weekends or holidays may receive a higher rate of pay, especially if they do not receive overtime for it. For example, Saturday work may be paid time and one half, while Sunday and holiday work is paid double time.

## **Group and Team Incentives**



With the growth of self-directed work teams, group and team incentives have become increasingly popular. Flexible organizations that strive to compete in dynamic environments often rely on self-directed work teams to design new products and respond to customer needs. An essential component of a successful team is an incentive plan that rewards cooperation and builds teamwork. When people work together, it seems reasonable that they be rewarded together.

Team incentives can be patterned after individual incentives: anything that can be paid as an individual incentive can be paid as a group incentive and distributed equally or according to skill or job demands. Piecework plans can be paid on either an individual or

a group basis. Straight piece rates can be based on group production figures, with all members of the group sharing in the incentive pay earned by the group. Standard hour plans also can be applied to group productivity through the establishment of a group performance standard. If a group produces 80 units of work each hour when the standard is 60 units per hour, all members of the group will receive one and one-third times the hourly rate.

Group incentive plans are often essential for smoothly functioning teams, and they have some important advantages over individual incentive plans. Group incentives create greater cooperation among coworkers than individual incentives. This climate of cooperation usually reduces the need for direct supervision and control since workers are supervised more by their coworkers than by their supervisor.

In such a climate, slow workers are pressured by their coworkers to increase their productivity. Moreover, the flow of work and flexibility in job assignments are greatly facilitated by group incentives. When the normal work routine is disrupted by unique problems, such as illness or broken machines, individuals paid on a group incentive plan are more likely to adapt to the problem and solve it themselves.

## **Organization-wide Programs: Profit Sharing and Gainsharing**



In addition to paying people according to their individual or group performance, pay also can be based on the performance of the entire plant, division, or organization. The most common large-scale incentive systems include profit sharing plans and gainsharing plans.

### **Profit Sharing**

In profit-sharing plans, employees receive a share of the company's profits in addition to their regular pay. The major types of profit-sharing plans are cash plans, deferred plans, or some combination of cash and deferred plans. Under a cash plan, payments are made to

employees at the end of each period (usually quarterly or annually). Small companies generally prefer cash plans. Under a deferred plan, an employee's share is held until a later period, usually retirement, although workers who become unemployed or disabled may receive payments earlier than retirement under some deferred plans. Deferred plans not only motivate good performance but also contribute to the financial security of their participants. The money in deferred plans is normally invested, and as a result, some plans provide sizable sums of money to their participants.

The **allocation formula** determines how the money in a profit-sharing fund is divided among the individual participants. Allocation formulas usually are based on level of responsibility, merit, base pay, and/or years of service. In one company, for example, the allocation is based on units: 1 unit is given for each \$500 of annual compensation up to 200 units, plus 2 units for each year of continuous service. Many companies allocate profit-sharing money according to base pay only since they assume that base pay is related to level of responsibility, merit, and years of service.

## Gainsharing

Gainsharing is similar to profit-sharing, but the bonuses are based on improved productivity rather than a percent of the profit. Gainsharing plans normally reward employees on a monthly or quarterly basis, depending on how productivity is measured, whereas profit-sharing is usually paid annually. The most popular gainsharing plans are Scanlon Plans, Rucker Plans, and Improshare.

**Scanlon Plan:** A **Scanlon Plan** is a combination of a gainsharing plan and an employee suggestion system. While a Scanlon Plan usually increases efficiency and productivity, it also is advocated as a means of reducing union-management conflict. A Scanlon Plan has come to represent a philosophy of industrial relations whereby management and employees work cooperatively to increase the efficiency of the company and then share in the rewards. Although a Scanlon Plan was originally intended only as an instrument for a unionized company, the presence of a union is not necessary.

A Scanlon Plan is installed by establishing a standard ratio of labor costs as a percentage of revenue; that is, the labor costs are divided by total sales or by the dollar value of the units produced. This standard is based on historical data for a company, such as the company's average ratio for the past five years. After the ratio is established, all employees share in any labor-cost savings or productivity increases.

The suggestion system is a central factor in the Scanlon Plan. Normally a system of departmental committees is established in addition to a central committee that screens suggestions and evaluates them. Individuals generally are not paid directly for submitting

suggestions but share with everyone else in any cost savings produced by the suggestions. The departmental committees meet periodically to eliminate problem situations that are reducing efficiency. These meetings are useful not only for improving efficiency but also for providing communication links between union and management.

**Rucker Plans:** Allen Rucker developed an incentive plan during the 1970s called a Rucker Share-of- Production Plan that is similar to a Scanlon Plan but based on a more sophisticated", analysis of value added. Here the ratio is calculated by dividing the labor costs by the "value added" rather than by total revenues as recommended by Scanlon. Under a Rucker plan, a historical relationship is established between total employee earnings (i.e., total labor costs) and the value added by the employees through the production process. The value added by the firm is simply the sales value of output less the cost of materials used. A standard productivity ratio is calculated, which expresses the production value required for each dollar of compensation. As productivity increases, compensation increases and is shared between labor and management. The ratios are revamped if major changes in products or production processes occur.

**Improshare:** Improshare plans are similar to Scanlon and Rucker plans, but improshare plans are tied directly to measures of productivity rather than to the dollar value of the product. The basic idea is that a firm sets a base level of performance, tracks improvements in performance, and then pays bonuses proportionate to the amount of time saved either to all workers or just to those in the group being measured. Improvements in productivity are shared with the employees, which explains why they are called improshare plans (improved productivity through sharing).

One advantage of improshare plans over Scanlon and Rucker plans is that improshare plans can be used in a broader variety of situations where a physical product is not produced. For example, the employees of a hotel could have bonuses tied to the occupancy rate, and employees in a training institute could receive bonuses tied to the number of people trained. Oil refineries could tie bonuses to reductions in accident rates and environmental accidents. Retail companies could tie bonuses to reductions in inventory shrinkage, which is mostly caused by employee theft and shoplifting.

Gainsharing plans became very popular starting in the 1980s because they contributed significantly to productivity improvements that were estimated to be as high as 35 percent in some companies. Like profit- sharing plans, gainsharing creates greater motivation in small companies and requires careful record keeping and a cooperative attitude within the company.

## **Self-assessment**

1. I can describe the various methods for providing individual pay incentives to employees.
2. I can explain skill-based pay and pay-for-knowledge programs.
3. I can explain profit sharing and gainsharing.

## 3.5 Employee Benefits Programs



### Objectives

**By the end of this section, you should be able to**

1. list and describe the various types of paid leave
2. explain recognition awards and suggestions systems

### Introduction

Employee benefits, also called benefits-in-kind, fringe benefits, perquisites, or perks, include various types of compensation provided to employees in addition to their normal pay. Employee benefits may be considered taxable income in many countries. Employee benefits are often provided as a way to increase the economic security of employees and improve employee retention. Some employee benefits are required by law, and others are subject to legal regulations if a company chooses to provide them.

# Health and Accident Insurance



In some countries, health and accident insurance are optional benefits that employers can decide whether they want to offer. In other countries, health insurance is a required benefit.

## Medical Insurance

Major medical and hospitalization coverage is included in many benefits plans. Medical insurance usually covers the following services.

- physician services, including office visits, adult physical exams, and well-childcare
- eye exams
- radiology and laboratory tests
- prescription drugs
- hospital services
- maternity services
- mental health therapy
- surgery
- physical therapy
- chiropractic therapy
- medical equipment
- emergency room services
- telemedicine services

## Dental Care

Dental and orthodontic coverage are included in some benefit plans. Plans may cover expenses for the extraction or replacement of natural teeth when necessitated by an accident. Reimbursement is also provided for a percentage of most other dental services, such as exams, crowns, x-rays, fluoride treatment, and cleaning. A percentage of orthodontic treatment is also sometimes covered.

## Dependent Care

Childcare and elder care are important benefits for some families. Many employers have discovered that dependent care is more than a humanitarian issue, it is also an economic issue since caring for a dependent tends to reduce attendance, increase stress, and decrease productivity.

Employers have experimented with a variety of successful childcare programs. Probably the greatest deterrent to more extensive childcare programs is a philosophical belief that childrearing is a responsibility best performed by parents rather than by companies or day-care centers. Although research in moral development abundantly demonstrates the vital role parents play in teaching moral values, some parents choose to work and others are required to work by economic necessity.

Finding a dependable and affordable source of childcare is a high priority for many working parents. These are the four most popular forms of childcare benefits.

1. **On-site childcare facility:** The companies that have an on-site childcare facility number in the hundreds; they tend to be large companies, and many of them are hospitals. Some neighboring companies form cooperatives to provide on-site facilities. The major advantage of an on-site facility is that parents can visit their children during their breaks and lunch periods. The major disadvantages are legal liability for accidents and the cost of creating and maintaining the facility. In spite of the costs of on-site facilities, some companies believe they are cost effective due to improved attendance, productivity, and retention. Another disadvantage shared by on-site child-care facilities is the spread of illness which causes parents to stay home with sick children. One study found that parents who were able to arrange care for their children in their homes only lost 1.9 day per month because of sick children while those whose children were in a day-care center missed an average of 5.2 day per month.

2. **Childcare allowance:** Since on-site day-care centers are not very feasible for small and medium-sized companies, some of these companies try to help employees by subsidizing their expenses in off-site centers or in their homes.

3. **Day-care information:** Some employers have provided excellent help for their employees by simply providing a resource and referral system. This information often includes names of day-care centers, rest homes, clinics, and baby-sitters.
4. **Flexible scheduling:** Being able to adjust work hours is occasionally very important to employees who are caring for others and who cannot always control their schedule. Some of the most helpful schedule changes include flextime, permanent part-time jobs, and job sharing.

## Pay for Time Not Worked



Paid vacations and paid holidays create the impression that employees are being paid for not working and that the company is generously providing wonderful benefits. Consequently, vacations, holidays, personal excused absences, other opportunities for not working are regarded as part of the benefit package.

### **Paid Holidays**

Holidays are days of special religious, cultural, or patriotic significance on which work and business ordinarily ceases. Workers usually receive time-off from work, at full or partial pay, for a specified number of holidays each year. Some employers also include "personal holidays," such as an employee's birthday or "floating holidays" that vary from year-to-year as determined by the employer or employee. When a holiday falls on a scheduled day off, such as a weekend, another day off is often substituted.

## **Paid Vacations**

Paid vacations consist of continuing the employees' regular wages during vacation periods. The length of the vacation period is generally tied to an employee's length of service.

Vacation plans with a carryover provision allow employees to move a certain number of unused vacation days into the next leave year. Any unused vacation days above the carryover limit are lost. Cash-in provisions allow employees covered by such plans to receive their normal daily earnings or some other amount for each unused vacation day up to a certain number of vacation days per year. Like carryover provisions, any unused vacation days above the cash-in limit are lost.

A recent study shows that only 25 percent of employees with paid vacations use all of their available leave. Fifty-one percent use less than half their leave, and 15 percent don't use any leave at all. In addition, 61 percent of those who do take leave say they do some work during their vacation." It is estimated that organizations in the United States have at least \$272 billion of unused vacation time on their balance sheets.

## **Paid Personal Leave**

Personal leave allows employees to be paid while absent from work for a variety of reasons not covered by other specific leave plans. Employees granted personal leave are usually eligible for one to five days per year, and a few employees are provided as much personal leave as needed.

## **Union Activities**

Union activities often require union officers to be excused from work. The nature of the activities and the time allowed for them is specified in most labor contracts. For example, most unionized companies permit time off with pay to employees who are involved in a grievance procedure.

## **Reporting Time**

Reporting time guarantees that employees who report for work will receive a minimum amount of pay even if they do not work. In construction and manufacturing, for example, employees normally get paid for so many hours of work just for reporting to work even if there is nothing to do. A number of states have laws that require employers to pay employees who report to work, even if they are sent home early.

## **Sabbatical Leaves**

Sabbatical leaves have been popular for college professors for many years. A few businesses have started to permit certain professionals and executives to have up to one year of sabbatical leave when they perform work that has value to society or that enhances

their professional competence. For example, some executives are asked by their companies to become involved in urban development projects and other full-time civic activities.

### **Paid Caregiver Leave**

Caregiver leave allows employees to take time off with pay to care for a family member who is sick or who needs physical or medical assistance. This benefit could include time off to care for a spouse, parent, or child, and could even extend to caring for a grandparent or grandchild.

### **Paid Parental Leave**

Parental leave provides paid time off for the birth of a baby, the adoption of a child, or the placement of a foster child. Paid parental leave is mandated in some countries.

### **Paid Funeral Leave**

Funeral leave provides time off from work due to a death in the family. Eligible employees usually receive a set number of days per occurrence and the number of days off may vary depending on the employee's relationship to the deceased. For example, a plan may provide three days off for the death of a spouse, parent, or child, but only one day off for the death of other relatives. Employees who do not have a formal funeral leave plan may be allowed to use other types of paid leave such as paid sick leave days to attend the funeral.

## **Recognition and Achievement Awards**



Companies also use a variety of nonfinancial incentives to motivate and reward their employees. These programs, which include various award programs and suggestion systems, often have a greater impact on motivation and company loyalty than financial incentives.

## **Award Programs**

Recognition awards can be highly motivating if they are part of an overall recognition program that includes a history of meaningful presentations. For example, a 25-year service pin can be an extremely motivating reward, not because of its financial worth but because of the symbolic meaning associated with the way it is presented in an annual awards ceremony where recipients are individually recognized. Employees who observe this ritual year after year come to appreciate the ceremony and see the pin as a highly valued reward. The best awards are functional jewelry or office/home accessories made of precious materials (such as gold and diamonds) that contain some form of symbolism, such as the company logo or colors. Meaningful presentations make employees feel genuinely appreciated and increase their job satisfaction and company commitment. The awards should be presented in the presence of coworkers by a higher-level manager who can describe the employee's contribution to the company. Careless and casual award presentations can make employees feel demeaned and unappreciated.

Organizations use a variety of recognition programs to influence the attitudes and behaviors of employees. Some programs are designed to achieve specific results by rewarding specific behaviors while other programs are intended to have a broad impact on employee attitudes and behaviors. Length of service programs are the most popular form of employee recognition. Seventy-two percent of organizations surveyed by WorldatWork have programs that recognize employees for their years of service." Length of service awards are generally given to employees on their anniversary date of hire at the end of the first year, the fifth year, and succeeding five-year increments. Since the awards are based on length of service, it would appear that they simply reward employees for not leaving. Companies that use them effectively, however, claim that service awards do much more than reward employees for hanging around; they can significantly increase productivity and improve job attitudes. Other recognition programs, and the percent of companies (46%), customer service awards (34%), company milestones (28%), productivity (27%), quality (27%), cost- savings (26%), major personal events (25%), biometric/wellness (25%), safety (24%), efficiency (24%), suggestions and ideas (20%), employee onboarding (19%), employee of the month/year (18%), and performance improvement (17%).

The kinds of rewards companies use to recognize good behavior include cash awards, savings bonds, shares of company stock, jewelry, clothing, theater tickets, dinner for two, luncheons with top managers, refreshments with co-workers during break times, time-off from work, extra vacation days, travel for two or travel with a company tour, cruise trips, plaques, and pictures displayed on prominent walls. Virtually any consumer product can be used as an award. Some employees select their own awards from gift catalogues.

## **Self-assessment**

1. I can list and describe the various types of paid leave.
2. I can explain recognition awards and suggestions systems.

## 3.6 Compensation Laws and Regulations



### Objectives

**By the end of this section, you should be able to**

1. describe the types of laws and regulations that impact compensation and benefits

### Laws and Regulations



Most countries have laws that regulate the compensation and benefits of employees. Human resource managers must ensure that their companies comply with these regulations. The following is a list of aspects of employee compensation that are often regulated.

- **Minimum wage:** Most countries have laws that set a minimum wage, the lowest amount of pay an employee may receive, based on an hourly, daily or monthly standard.
- **Overtime:** Some countries have laws that require employers to pay overtime premiums, such as one and a half times or twice the hourly rate, for hours worked in excess of a set amount, such as 40 hours per week or for more than a certain number of hours in a day.
- **Equal pay for equal work:** Some countries have a law mandating equal pay for equal work. This concept is typically used to prevent future or rectify past sexual discrimination. The concept of pay equality is also covered in international labor law.
- **Paid leave:** Many national governments have laws guaranteeing paid leave to their employees for a variety of reasons, including holidays, vacations, maternity leave, paternity leave, and sick leave. Most countries require between two and four weeks of paid leave per year.
- **Workers' compensation:** Workers' compensation insurance provides medical benefits and income replacement to employees injured on the job. In exchange for this coverage, employees agree to relinquish their right to sue the employer for negligence. Survivor benefits are provided to family members of employees killed in workplace accidents. Many countries have workers' compensation laws.
- **Unemployment compensation:** Unemployment is a type of insurance that provides compensation to unemployed people. In some countries unemployment benefits are provided through a government system, and in others the benefits are provided by trade and labor unions. Generally, unemployment benefits are provided only to those who register for unemployment benefits and can document that they are currently seeking work.
- **Pensions:** A pension is the income individuals receive during retirement as a deferred payment for past services rendered. Most countries have laws that regulate pension funds, and many pensions are administered by the government.
- **Benefits:** Employee benefits include various types of non-wage compensation provided to employees in addition to their normal pay. Employee benefits may be considered taxable income in many countries.
- **Taxation:** Most employees around the world are required to pay income taxes. The involvement of the employer varies by country, and human resource managers need to understand the employer's role in taxation. Most tax laws are extremely complex.

## **Self-assessment**

- I can describe the types of laws and regulations that impact compensation and benefits.