

# Compensation

- The human resource management function that deals with every type of reward individuals receive in exchange for performing organisational tasks
- Major costs for organisations

# Classifications

- Financial vs. Non-financial
- Direct vs Non-direct financial

# Objectives

- Adequate
- Equitable
- Balanced
- Cost-effective
- Secure
- Incentive-providing
- Acceptable to employee

# External Influences

- The Labour Market
- International Labour Force
- Economic Conditions
- Government
- Union

# Internal Influences

- The Labour Budget
- Who Makes Compensation Decision

# Compensation Decisions

- Wage-level Decision
- Wage Structure
- Individual Wage Determination

# Wage Level Decision

- A policy decision by top management
- Objectives (1) to attract an adequate supply of labour, (2) to keep present employees satisfied, and (3) to avoid costly turnover
- major tool for making wage level decision is the **WAGE SURVEY**

# Wage Survey

- Techniques and instruments used to collect data about compensation paid to employees by all employers.
- Must be accurate 'cause you are using it to make compensation decisions



# Wage-Structure Decisions

- Obj: to provide equal pay for jobs of equal worth and an acceptable set of pay differentials for jobs of unequal worth
- decision typically made as (1) a unilateral decision by top management, (2) collective bargaining, (3) job evaluation

# Job Evaluation

- The systematic process of determining the relative worth of jobs in order to establish which jobs should be paid more than others within an organisation.
- Tries to establish equity in the system and all methods will include some degree of managerial judgement

# Reasons for Job Evaluation

- To establish a systematic and formal structure of jobs based on their worth to the organisation
- to justify an existing pay structure or to develop one that provides for internal equity
- to provide a basis for negotiating pay rates when a firm bargains collectively with a union

## Reasons cont.

- To identify to employees a hierarchy of pay progression
  - to develop a basis for a merit pay programme
- must try and include employees in the job evaluation process, looking at J.D. and J.S. first

# Methods of J.E.

- Ranking method: rank order whole jobs from the simplest to the most challenging
- Grading/Classification: groups a set of jobs together into a grade and then these sets of jobs are ranked on levels of difficulty
- Point system: requires evaluator to quantify the value of the elements of a job.
- Factor comparison: done factor by factor

# Individual Pay Decision

- Experience
- Seniority
- Performance

# Pay Differentials are based on:

- Individual Differences in experience, skills, and performance
- Expectations that seniority, higher performance, or both deserve higher pay

# Methods of Payment

- Flat Rates
- Payment for Time Worked : wages and salary
- Variable Pay: based on output and called incentive pay: to employee, group, or on an organizational basis, e.g. merit incentives, straight piecework, bonus, commissions



# Mandated Benefits and Services

- Social Security
- Vacation
- Sick Leave
- Maternity Leave

# Voluntary Benefits

- Compensation for Time Off
  - ✓ Paid Holidays
  - ✓ Paid Vacations
  - ✓ Personal time off
  - ✓ Paternity Leave
- Employer Purchased Insurance

# Employee Services

- Stock ownership plans
- Education programmes
- Preretirement programmes
- Child Care
- Elder Care
- Financial Services
- Social and Recreational programmes

# Managing an Effective Benefits Programme

- Set Objectives and Strategy for Benefits
- Involve Participants and Unions
- Communicate Benefits
- Monitor Costs Closely