

# UNIT4: COMPENSATION AND BENEFITS

<b>Preface.....</b>	<b>i</b>
Notice.....	i
International HR Certification Exams .....	ii
SPHRi™ Exam.....	ii
PHRi™ Exam .....	ii
About the Authors .....	iii
Acknowledgement .....	iii
<b>4.1 Total Rewards: Financial and Non-financial .....</b>	<b>1</b>
4.1.1 Strategic Objectives of Compensation .....	2
4.1.2 Ethical Consideration in Compensation .....	3
Compensation Maxim .....	4
Wages versus Salaries .....	4
Pay Secrecy versus Openness .....	5
4.1.3 Determined of Pay.....	7
4.1.4 Three Wage Decisions .....	7
<b>4.2 The wages-Level Decision .....</b>	<b>9</b>
4.2.1 Establishing the Wage Level .....	9
4.2.2 Factors Influencing the Wage-Level Decision .....	9
4.2.3 Wage Surveys .....	10
Government Surveys.....	10
Private Industry Surveys .....	11
Company-Sponsored Surveys.....	11
4.2.4 Survey Methods.....	11
<b>4.3 Job Evaluation Methods .....</b>	<b>13</b>
4.3.1 Ranking Methods .....	14
4.3.2 Classification/Grading Method .....	14

4.3.3 Point Method .....	16
4.3.4 Factor Comparison Method .....	20
4.3.5 Guide Chart- Profile Method (Hay method) .....	22
<b>4.4 Job Pricing and Pay Rate Administration .....</b>	<b>25</b>
4.4.1 Pay Grades and Pay Ranges .....	25
4.4.2 Red-Circle Job Rates .....	27
4.4.3 Adjustments for Economic Conditions .....	28
Inflation .....	28
Economic Declines .....	29
4.4.4 Individual Pay Rate Determination .....	30
Performance .....	30
Experience .....	30
Seniority .....	30
Potential .....	31
4.4.5 Reflecting Geographic Influences in Pay Structures .....	31
4.4.6 Establishing Administrative Controls .....	31
Control Through the Wage Structure.....	31
Controls through Budgeting .....	32
<b>4.5 Economic Factors Affecting Compensation .....</b>	<b>35</b>
4.5.1 Inflation .....	35
4.5.2 Interest Rates .....	35
4.5.3 Industry Competition .....	35
4.5.4 Foreign Competition .....	36
4.5.5 Economic Growth .....	36
4.5.6 Demographic Trends .....	36
<b>4.6 Incentive Compensation Systems .....</b>	<b>37</b>
4.6.1 Money and Motivation Theories .....	37
Need Theories .....	37
Self-Determination Theory .....	38

Expectancy Theory .....	39
Equity Theory .....	41
Goal Setting Theory .....	43
Motivation and Financial Incentives .....	44
4.6.2 Individual Incentives .....	46
Merit Pay .....	46
Bonuses .....	47
Piece-rate Incentives .....	48
The Standard Hour Plan .....	48
The Hasley Premium Plan .....	49
The Effectiveness of piece-rate Incentives .....	49
4.6.3 Skill and Knowledge Based Pay .....	51
4.6.4 Differential Pay.....	53
Overtime .....	53
Shift Pay .....	53
Hazard Pay .....	53
On- call Pay .....	53
Call-back Pay .....	53
Weekend and holiday Pay .....	54
4.6.5 Group and Team Incentives .....	54
4.6.6 Organization-Wide Programs: Profit Sharing and Gainsharing .....	55
Profit sharing .....	55
Gainsharing .....	56
4.6.7 Strategic Alignment of Base Pay and Incentive Pay .....	58
<b>4.7 Executive Compensation .....</b>	<b>63</b>
4.7.1 Salaries .....	63
4.7.2 Executive Bonus Plans .....	64
4.7.3 Stock Options .....	65
4.7.4 Nonfinancial Rewards .....	66

4.7.5 Director Pay .....	66
<b>4.8 Employee Benefit Programs .....</b>	<b>69</b>
4.8.1 Pensions.....	69
Pensions.....	69
4.8.2 Health and Accident Insurance .....	70
Medical Insurance.....	70
Dental Care .....	70
Dependent Care .....	70
4.8.3 Income Replacement .....	71
Disability.....	71
Life Insurance .....	72
Severance Pay .....	72
4.8.4 Employee Services .....	72
Legal Assistance .....	74
Auto and Property Insurance .....	74
Retirement Counseling .....	74
Transfer and Relocation Assistance .....	74
4.8.5 Pay for Time Not Worked .....	75
Paid Holidays.....	75
Paid Vacations .....	75
Paid Personal Leave .....	75
Union Activities .....	75
Reporting Time .....	75
Sabbatical Leaves .....	76
Paid Funeral Leave .....	76
4.8.6 Recognition and Achievement Awards.....	76
Award Programs.....	76
Suggestions Systems .....	77

<b>4.9 Managing Employee Benefits Programs .....</b>	<b>79</b>
4.9.1 Employee Benefits Philosophy, Planning, and Strategy .....	79
4.9.2 Employee Preferences Assessment: Surveys .....	79
4.9.3 Cost-Benefit Analysis and Cost Management .....	80
Benefits Plan Audits .....	81
Coordinators of Benefits .....	81
Utilization Review .....	81
4.9.4 Communication Benefits Programs .....	81
Total Reward Statement .....	82
<b>4.10 Evaluating Compensation .....</b>	<b>85</b>
4.10.1 Budgeting.....	85
Cost Management .....	86
4.10.2 Assessment of Methods and Processes .....	88
<b>4.11 International HR Compensation Issues .....</b>	<b>91</b>
4.11.1 Expatriate Pay and Allowances .....	91
4.11.2 Compensation and Benefits for Global Workers .....	92
Cost of Living Allowance .....	92
Exchange Rate Fluctuations.....	92
<b>4.12 Compensation Laws and Regulations .....</b>	<b>95</b>
<b>Key Terms.....</b>	<b>97</b>
<b>PHRi™ Exam Content Outline.....</b>	<b>103</b>
<b>SPHRi™ Exam Content Outline .....</b>	<b>109</b>
<b>Endnotes .....</b>	<b>115</b>
<b>Index .....</b>	<b>119</b>

