

Fundamentals of Human Resource Management

DeCenzo and Robbins

Chapter 11

Establishing Rewards and Pay Plans

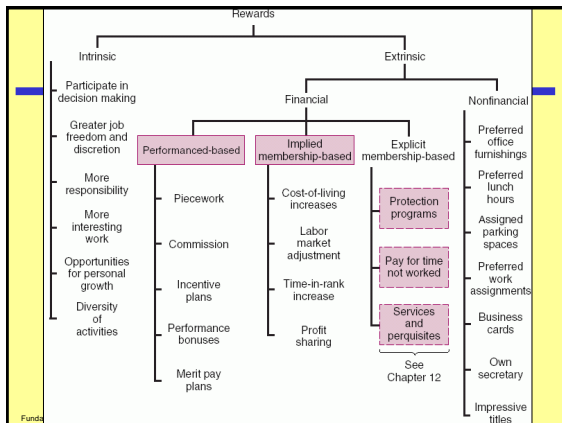
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Introduction

- People do **what they do to satisfy some need** and they **look for a payoff/money or reward**.
- The most obvious reward is pay, but there are many others, including:
 - promotions
 - desirable work assignments
 - peer recognition
 - work freedom



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Types of Reward Plans

Intrinsic versus Extrinsic Rewards

- **Intrinsic** rewards (personal satisfactions) come from the job itself, such as:
 - pride in one's work
 - feelings of accomplishment
 - being part of a work team



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Types of Reward Plans

Intrinsic versus Extrinsic Rewards

- **Extrinsic** rewards come from a source outside the job
 - include rewards offered mainly by management
 - Money
 - Promotions
 - Benefits



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Types of Reward Plans

Financial versus Nonfinancial Rewards

- **Financial** rewards include:
 - wages
 - bonuses
 - profit sharing
 - pension plans
 - paid leaves
 - purchase discounts
- **Nonfinancial** rewards emphasize making **life on the job more attractive**; employees vary greatly on what types they find desirable.



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Types of Reward Plans

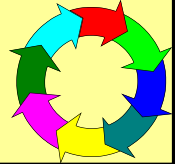
Performance-based versus Membership-Based Rewards

- **Performance-based** rewards are tied to specific job performance criteria.
 - commissions
 - piecework pay plans
 - incentive systems
 - group bonuses
 - merit pay
- **Membership-based** rewards such as **cost-of-living increases**, benefits, and salary increases are offered to all employees.

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Compensation Administration

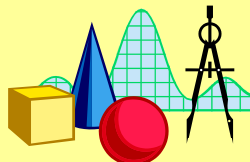
- The process of **managing a compensation program** so that the organization can **attract, motivate and retain competent employees** who perceive that the program is fair.



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Compensation Administration

- **Job evaluation** – the process used to determine **each job's appropriate worth** within the organization.
- Based on job analysis information.

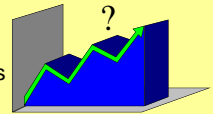


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Job Evaluation and the Pay Structure

Job Evaluation

- Use of **job analysis information** to determine the **relative value of each job** in relation to all jobs within the organization.
 - The ranking of jobs
 - Labor market conditions
 - Collective bargaining
 - Individual skill differences



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Job Evaluation and the Pay Structure

Job Evaluation Methods

- **Ordering method:** A committee places jobs in a **simple rank order from highest (worth highest pay) to lowest.**



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Job Evaluation and the Pay Structure

Job Evaluation Methods

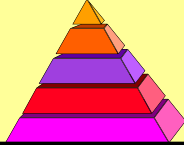
- **Classification method:**
 - Jobs are placed in **classification grades**
 - Compare their descriptions to the classification description and benchmarked jobs
 - Look for a common denominator such as **skills, knowledge, or responsibility**

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Job Evaluation and the Pay Structure

Job Evaluation Methods

- **Point method:**
 - Jobs are rated and allocated points on several **identifiable criteria**, using clearly defined **rating scales**.
 - Jobs with similar point totals are placed in similar pay grades.
 - Offers the greatest stability.

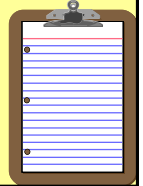


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Job Evaluation and the Pay Structure

Establishing the Pay Structure

- **Compensation surveys**
 - Used to gather **factual data on pay rates for other organizations**
 - Information is often collected on associated employee benefits as well



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Job Evaluation and the Pay Structure

Establishing the Pay Structure

- **Wage curves**
 - Drawn by plotting job **evaluation data** (such as job points or grades) **against pay rates** (actual or from survey data).
 - Indicate whether the pay structure is logical

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Job Evaluation and the Pay Structure

Establishing the Pay Structure

- **Wage structure**
 - Designates **pay ranges** for groups of jobs which are
 - similar in value to the organization
 - grouped by their classifications, grades or points.

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Special Cases of Compensation

Incentive Compensation Plans

Incentives can be **added to the basic pay structure** to provide rewards for performance.

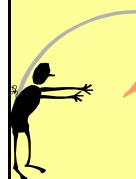


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Special Cases of Compensation

Incentive Compensation Plans

- **Individual Incentives** include
 - **merit pay plans** (annual increase, based on performance)
 - **piecework plans** (pay based on **number of units produced** typically in a specified time period.)
 - time-savings bonuses and commissions



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Special Cases of Compensation

Incentive Compensation Plans

Individual Incentives:

- Work best where clear objectives can be set and tasks are independent.
- Many organizations today require employees to place a percentage of their salary “at risk” so that merit pay does not become a substitute for automatic cost-of-living raises.

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Special Cases of Compensation

Incentive Compensation Plans

• Group Incentives

- Incentives can be offered to groups, rather than individuals, when employees' tasks are interdependent and require cooperation.



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Special Cases of Compensation

Incentive Compensation Plans:

- **Plant-wide/ Organization Incentives:**
- Direct employee efforts toward organizational goals (such as cost reduction)
- **Scanlon Plan** - An organization-wide incentive program focusing on cooperation between management and employees through sharing problems, goals, and ideas.
- **IMPROSHARE** - formula is used to determine employee bonuses based on labor cost savings

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Special Cases of Compensation

Paying for Performance

- Pay is based on some measure of performance.
- Common performance measures are:
 - piece-rate plans
 - gainsharing
 - wage incentive plans
 - profit sharing
 - lump sum bonuses

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Special Cases of Compensation

Paying for Performance

- **Competency-based compensation**
 - Rewarded for skills, knowledge and behaviors
 - leadership
 - problem solving
 - decision making
 - strategic planning
- **Broad-banding** - Paying employees at preset levels based on their level of competency

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Special Cases of Compensation

Team-Based Compensation

- Incentives for empowered work teams to exceed established goals and share equally in rewards.
- Depends on:
 - clarity of team purpose and goals
 - ability of the team to obtain needed resources
 - effective team communication skills and trust

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Executive Compensation Programs

Salaries of Top Managers

- Executive salaries, bonuses and stock options may seem high.
- Top twenty CEOs average more than \$100 million in total compensation.
- Competition for executive talent raises the price of hiring an executive.
- High salaries can be a motivator for executives and lower-level managers



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Executive Compensation Programs

Supplemental Financial Compensation

- **Deferred bonuses** – paid to executives over **extended time periods**, to encourage them to stay with the company.
- **Stock options** – allow executives to purchase stock in the future at a fixed price.
- **Hiring bonuses** – compensate for the deferred compensation lost when leaving a former company.

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Executive Compensation Programs

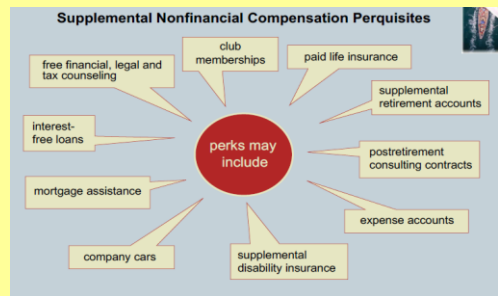
Supplemental Nonfinancial Compensation: Perquisites

- Perks may include:
 - paid life insurance
 - club memberships
 - company cars
 - expense accounts
 - interest-free loans
 - free financial
 - legal and tax counseling
 - mortgage assistance



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Executive Compensation Programs



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Executive Compensation Programs

• Supplemental Nonfinancial Compensation: Perquisites

- **Golden parachutes** **protect executives** **when a merger or hostile takeover** occurs by providing severance pay or a guaranteed position.

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