Basic Factors in Determining Pay Rates

Learning Objective 11-1

List the basic factors determining pay rates.

Employee compensation includes all forms of pay going to employees and arising from their employment. It has two main components, **direct financial payments** (wages, salaries, incentives, commissions, and bonuses) and **indirect financial payments** (financial benefits like employer-paid insurance and vacations).

In turn, employers can make direct financial payments to employees based on increments of time or based on performance. Time-based pay still predominates. Blue-collar and clerical workers receive hourly or daily wages, for instance. Others, like managers or Web designers, tend to be salaried and paid weekly, monthly, or yearly.

The second direct payment option is to pay for performance. For example, piecework ties compensation to the amount of production (or number of "pieces") the worker turns out. Sales commissions tie pay to sales. Many employers' pay plans combine time-based pay and incentives.

In this chapter, we explain how to formulate plans for paying employees a time-based wage or salary. Subsequent chapters cover performance-based financial incentives and bonuses (**Chapter 12**) and employee benefits (**Chapter 13**).

Several factors should influence any pay plan's design. These include strategic policy considerations, as well as equity, legal, and union considerations.

Aligning Total Rewards with Strategy

The compensation plan should first advance the firm's strategic aims—management should produce an *aligned reward strategy.* This means creating a compensation package that produces the employee behaviors the firm needs to achieve its competitive strategy. [2] Put another way, the rewards should provide a clear pathway between each reward and specific business goals. [3]

We will see that many employers formulate a total rewards strategy to support their strategic aims. *Total rewards* encompass traditional pay, incentives, and benefits, but also “rewards” such as more challenging jobs (job design), career development, and recognition.

Table 11-1 lists illustrative questions to ask when crafting a strategy-oriented pay policy.

Table 11-1

Do Our Compensation Policies Support Our Strategic Aims?

- What are our strategic aims?
- What employee behaviors and skills do we need to achieve our strategic aims?
- What compensation policies and practices—salary, incentive plans, and benefits—will help to produce the employee behaviors we need to achieve our strategic aims?

HR in Practice at the Hotel Paris

Even a casual review by Lisa Cruz and the CFO made it clear that the Hotel Paris’s compensation plan wasn’t designed to support the firm’s new strategic goals. To see how they handled this, see the case on page 380 of this chapter.

Equity and Its Impact on Pay Rates

In studies at Emory University, researchers investigated how capuchin monkeys reacted to inequitable pay. Some monkeys got sweet grapes in return for trading pebbles; others got cucumber slices. If a monkey receiving a cucumber slice saw a neighbor get grapes, it slammed down the pebble or refused to eat. [4] It seems even lower primates may demand fair treatment in pay.

Among humans, too, *the equity theory of motivation* postulates that people are motivated to maintain a balance between what they perceive as their contributions and their rewards. Equity theory states that if a person perceives an inequity, a tension or drive will develop that motivates him or her to reduce the tension and perceived inequity. Research tends to support equity theory, particularly as it applies to those underpaid. [5] For example, in one study turnover of retail buyers was significantly lower when the buyers perceived fair treatment in rewards and in how employers allocated rewards. [6] Overpaying can sometimes backfire, too, perhaps "due to feelings of guilt or discomfort." [7]

In compensation, one can address *external, internal, individual*, and *procedural* equity. [8]

- ***External equity*** refers to how a job's pay rate in one company compares to the job's pay rate in other companies.
- ***Internal equity*** refers to how fair the job's pay rate is when compared to other jobs within the same company (for instance, is the

sales manager's pay fair, when compared to what the production manager earns?).

- ***Individual equity*** refers to the fairness of an individual's pay as compared with what his or her coworkers are earning for the same or very similar jobs within the company, based on each person's performance.
- ***Procedural equity*** refers to the "perceived fairness of the processes and procedures used to make decisions regarding the allocation of pay." [9]

Managers use various means to address such equity issues. For example, they use salary surveys (surveys of what other employers are paying) to monitor and maintain external equity. They use job analysis and comparisons of each job ("job evaluation") to maintain internal equity. They use performance appraisal and incentive pay to maintain individual equity. And they use communications, grievance mechanisms, and employees' participation to help ensure that employees view the pay process as procedurally fair. Some firms administer attitude surveys to monitor employees' pay satisfaction. Questions typically include, "How satisfied are you with your pay?" and "What factors do you believe are used when your pay is determined?" [10]

To head off discussions that might prompt feelings of internal inequity, some firms maintain strict secrecy over pay rates, while others publicize them. [11] However, "open pay" policies can backfire. In one firm, employees vigorously opposed paying a high salary to a great candidate unless everyone else's pay went up, too, for instance. [12] As of now, the research concerning pay secrecy is inconclusive, and most employers don't have open pay policies. [13] For external equity, online pay sites like **Salary.com** make it easy to see what one could earn elsewhere.

Legal Considerations in Compensation

Employers do not have free reign in designing pay plans. Various laws specify things like minimum wages, overtime rates, and benefits. [14] For example, the **1931 Davis-Bacon Act** lets the secretary of labor set wage rates for laborers and mechanics employed by contractors working for the federal government. The **1936 Walsh-Healey Public Contract Act** sets basic labor standards for employees working on any government contract that amounts to more than $10,000. It contains minimum wage, maximum hour, and safety and health provisions, and requires time-and-a-half pay for work over 40 hours a week. **Title VII of the 1964 Civil Rights Act** makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin. [15] We'll look next at other important compensation-related laws.

THE 1938 FAIR LABOR STANDARDS ACT The **Fair Labor Standards Act**, originally passed in 1938 and since amended many times, contains minimum wage, maximum hours, overtime pay, equal pay, record-keeping, and child labor provisions that are familiar to most working people. [16] It covers virtually all U.S. workers engaged in the production and/or sale of goods for interstate and foreign commerce. In addition, agricultural workers and those employed by certain larger retail and service companies are included. State fair labor standards laws cover most employers not covered by the Fair Labor Standards Act (FLSA). [17]

One familiar provision governs *overtime pay.* It says employers must pay overtime at a rate of at least one-and-a-half times normal pay for any hours worked over 40 in a workweek. Thus, if a worker covered by the act works 44 hours in one week, he or she must be paid for 4 of those hours at a rate equal to one-and-a-half times the hourly or weekly base rate the person would have earned for 40 hours. [18] For example, if the person earns $12 an hour (or $480 for a 40-hour week), he or she would be paid at the rate of $18 per hour ($12 times 1.5) for each of the 4 overtime hours worked, or $72 ($18 times 4) for the extra 4 hours. If the employee instead receives time off for the overtime hours, the employer must compute the number of hours granted off at the one-and-a-half-times rate (6 hours off for the 4 hours of overtime in our case), in lieu of overtime pay. LinkedIn recently paid $5.8 million in overtime violation damages to 359 former and current employees. [19]

Know Your Employment Law

The Workday

Employers need to be vigilant about employees who arrive early or leave late, lest the extra time spent on the employer's property obligate the employer to compensate the employee for that time. For example, a diligent employee may get dropped off at work early and spend, say, 20 minutes before his or her day actually starts doing work-related chores such as compiling a list of clients to call that day. While there is no hard and fast rule, some courts follow the rule that employees who arrive 15 or more minutes early are presumed to be working unless the employer can prove otherwise. [20] If using time clocks, employers should always instruct employees not to clock in more than 5–10 minutes early (or out 5–10 minutes late). Smart phones give employers further reason to meticulously record workers' hours. An app from the Department of Labor lets employees track their work hours. [21] The Chicago Police Department distributed smart phones to its officers in the field. One police officer subsequently sued, claiming that he wasn't paid overtime for the hours he spent using his smart phone off the clock. Vendors such as Pacific Timesheet (**www.pacifictimesheet.com**) provide mobile payroll time sheets. [22] Outside the office, employees can fill these in via their iPhones or similar devices. [23] Newer time clocks have iPad-like touch screens and reduce "buddy punching" with instant photos and biometric sensors. [24]

The FLSA also sets a *minimum wage*. This sets a floor for employees covered by the act (and usually bumps up wages for practically all workers when Congress raises the minimum). The minimum wage was $7.25 in 2015. Many states have their own minimum wage. For example, the minimum wage as of 2016 is $10.00 in California and Massachusetts. [25] New York state is debating raising its minimum wage to $15 per hour. Various cities have set their own (higher) minimum wages. [26] Under new federal rules, workers on federal contracts earn a minimum of $10.10 per hour. [27]

FLSA *child labor provisions* prohibit employing minors between 16 and 18 years old in hazardous occupations, and carefully restrict employment of those under 16.

A great many employers today pay people as "independent contractors" rather than as employees. Strictly speaking, these people are like consultants, and therefore are not covered by the FLSA. The Know Your Employment Law feature nearby explains about paying this type of worker.

EXEMPT/NONEXEMPT Specific categories of employees are *exempt* from the FLSA or certain provisions of the act, and particularly from the act's overtime provisions. They are "exempt employees." A person's exemption depends on his or her responsibilities, duties, and salary. Bona fide executive, administrative (like office managers), and professional employees (like architects) are generally exempt from the minimum wage and overtime requirements of the act. [28] A white-collar worker earning more than $100,000 and performing any one exempt administrative, executive, or professional duty is automatically ineligible for overtime pay. Other employees can generally earn up to $23,660 per year and still automatically get overtime pay (so most employees earning less than $455 per week are nonexempt and earn overtime). [29] **Figure 11-1** lists some examples of typically exempt and nonexempt jobs. In 2014 President Obama instructed the U.S. Labor Department to devise policies to raise the exempt threshold from $455 per week to $984 per week, or about $50,000 per year. [30] And in 2015 his administration proposed setting the threshold at $50,440 a year, which would include many workers classified as managers. [31]

Figure 11-1

Some Typical Exempt, Nonexempt Job Titles

EXEMPT	NONEXEMPT
Lawyers	Paralegals
Medical doctors	Accounting clerks
Dentists	Bookkeepers
Engineers (with degrees)	Licensed practical nurses
Teachers	Clerical employees
Scientists	Most secretaries (although some, such as the CEO's secretary, might be exempt)
Registered nurses	Lab technicians
General managers	
Pharmacists	
Administrative employees*	

* The administrative exemption is designed for relatively high-level employees whose main job is to "keep the business running." Examples of administrative functions, whose high level employees may typically be exempt, include labor relations and personnel (human resources employees), payroll and finance (including budgeting and benefits management), records maintenance, accounting and tax, marketing and advertising (as differentiated from direct sales), quality control, public relations (including shareholder or investment relations, and government relations), legal and regulatory compliance, and some computer-related jobs (such as network, internet and database administration).

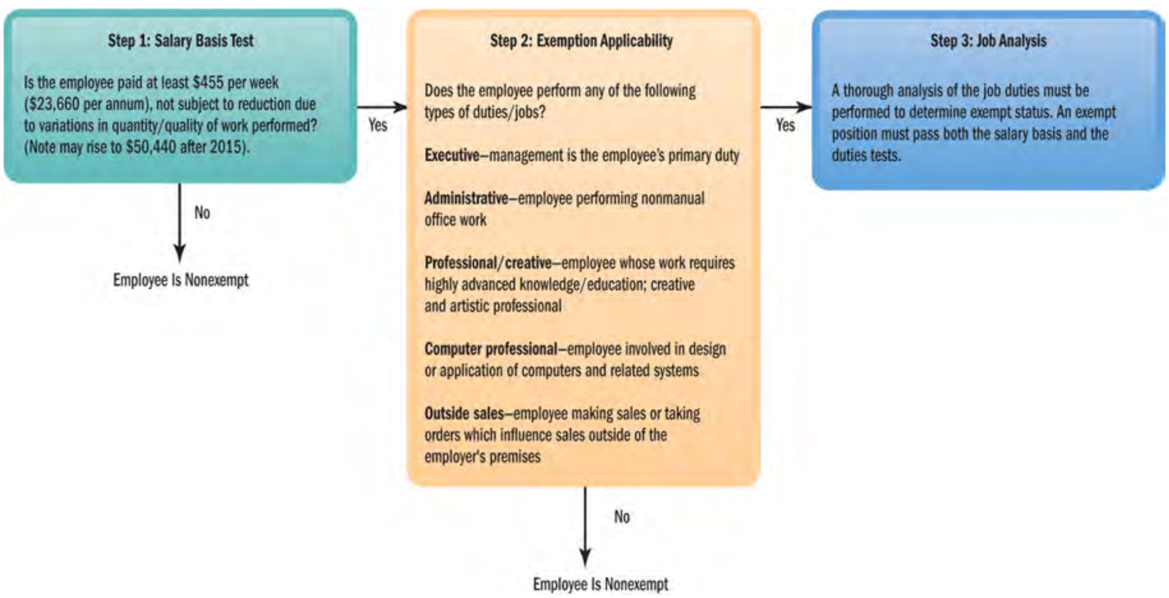
If an employee is exempt from the FLSA's minimum wage provisions, then he or she is also exempt from its overtime pay provisions. However, certain employees are *always* exempt from overtime pay provisions. They include, among others, agricultural employees, live-in household employees, taxi drivers, and motion picture theater employees. [32]

Identifying exemptions is tricky. As noted, some jobs—for example, top managers and lawyers—are clearly exempt, while others—such as office workers earning less than $23,660 per year—are clearly nonexempt (although again, that may have risen to $50,440 when you read this). But beyond that, one should review the job before classifying it as exempt or nonexempt. **Figure 11-2** presents a procedure for making this decision. Make sure, for instance, that the job currently does in fact require, say, an exempt-type supervisory duty. [33]

FLSA exemption lawsuits are on the rise. “Supervisors” are saying they don’t really supervise two or more employees. [34] And the U.S. Supreme Court held that drug company sales reps that call on doctors are FLSA-exempt outside salespersons. [35]

Figure 11-2

Who is Exempt?; Who is Not Exempt?



*Source: Based on **www.flsa.com/coverage.html**, accessed August 5, 2011; and **www.dol.gov/elaws/esa/flsa/screen75.asp**, accessed September 12, 2015.*

The Independent Contractor

Whether someone is an employee or an *independent contractor* is a continuing concern for employers. [36] For example, a federal court ruled that most of FedEx's roughly 15,000 owner-operator delivery people were independent contractors, not employees. [37]

Why claim that someone is an independent contractor? Because the FLSA's overtime and most other requirements do not apply, and the employer need not pay unemployment compensation; payroll taxes; Social Security taxes; or city, state, and federal income taxes or compulsory workers' compensation for that worker.

The problem is that many so-called independent contractor relationships aren't independent contractor relationships. In general, an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done. [38] However, there is no single rule or test. Instead, the courts will look at the total situation. The major consideration is this: The more the employer controls what the worker does and how he or she does it, the more likely it is that the courts will find the worker to be an employee. **Figure 11-3** lists some factors courts will consider. The IRS lists rules at its Web site.[39] Uber faces lawsuits that its drivers are employees, not independent contractors.

To minimize the risks of independent contractor misclassification, employers should execute written agreements with all independent contractors; you'll find samples online.[40] Furthermore, employers should not impose work rules on or attempt to prohibit independent contractors from working for others. They should require independent contractors to provide their own tools and to be separately incorporated business entities.[41]

Because the Affordable Care Act covers employers with 50 or more employees, government agencies will be looking more closely at employers' independent contractors. To minimize problems, some employers are having staffing companies supply more of their workforce, thus staying below the 50-employee limit.[42]

Figure 11-3
Independent Contractor

Independent Contractor

Managers are to use the following checklist to classify individuals as independent contractors. If more than three questions are answered "yes," the manager will confer with human resources regarding the classification. (EE = Employees, IC = Independent Contractors)

Factors which show control :

	Yes/EE	No/IC	N/A
1. Worker must comply with instructions.	☐	☐	☐
2. Worker is trained by person hired.	☐	☐	☐
3. Worker's services are integrated in business.	☐	☐	☐
4. Worker must personally render services.	☐	☐	☐
5. Worker cannot hire or fire assistants.	☐	☐	☐
6. Work relationship is continuous or indefinite.	☐	☐	☐
7. Work hours are present.	☐	☐	☐
8. Worker must devote full time to this business.	☐	☐	☐
9. Work is done on the employer's premises.	☐	☐	☐
10. Worker cannot control order or sequence.	☐	☐	☐
11. Worker submits oral or written reports.	☐	☐	☐
12. Worker is paid at specific intervals.	☐	☐	☐
13. Worker's business expenses are reimbursed.	☐	☐	☐
14. Worker is provided with tools or materials.	☐	☐	☐
15. Worker has no significant investment.	☐	☐	☐
16. Worker has no opportunity for profit/loss.	☐	☐	☐
17. Worker is not engaged by many different firms.	☐	☐	☐
18. Worker does not offer services to public.	☐	☐	☐
19. Worker may be discharged by employer.	☐	☐	☐
20. Worker can terminate without liability.	☐	☐	☐

*Source: Reproduced with permission from the publisher BLR—Business & Legal Resources (**www.HR.BLR.com**)*

1963 EQUAL PAY ACT The **Equal Pay Act**, an amendment to the Fair Labor Standards Act, states that employees of one sex may not be paid wages at a rate lower than that paid to employees of the opposite sex for doing roughly equivalent work. Specifically, if the work requires equal skills, effort, and responsibility and involves similar working conditions, employees of both sexes must receive equal pay, unless the differences in pay stem from a seniority system, a merit system, the quantity or quality of production, or "any factor other than sex."

1974 EMPLOYEE RETIREMENT INCOME SECURITY ACT Aimed at protecting employees' pensions, the **Employee Retirement Income Security Act (ERISA)** provides for the creation of government-run, employer-financed corporations to protect employees against the failure of their employers' pension plans. It also sets regulations regarding vesting rights (*vesting* refers to the equity or ownership the employees build up in their pension plans should their employment terminate before retirement). ERISA also regulates ***portability rights*** (the transfer of an employee's vested rights from one organization to another). It also contains fiduciary standards to prevent dishonesty in pension plan funding.

OTHER LEGISLATION AFFECTING COMPENSATION Various other laws influence compensation decisions. For example, the *Age Discrimination in Employment Act* prohibits age discrimination against employees who are 40 years of age and older in all aspects of employment, including compensation. [43] The *Americans with Disabilities Act* prohibits discrimination against qualified persons with disabilities in all aspects of employment. The *Family and Medical Leave Act* aims to entitle eligible employees, both men and women, to take up to 12 weeks of unpaid, job-protected leave for the birth of a child or for the care of a child, spouse, or parent. And various executive orders require employers that are federal government contractors or subcontractors to not discriminate in certain employment areas, including compensation.

Each state has its own *workers' compensation laws.* Among other things, these aim to provide prompt, sure, and reasonable income to victims of work-related accidents. The *Social Security Act of 1935* (as amended) provides for unemployment compensation for workers unemployed through no fault of their own for up to 26 weeks (and recently extended), and for retirement benefits. (We'll discuss Social Security benefits in a later chapter.) The federal wage garnishment law limits the amount of an employee's earnings that employers can withhold (garnish) per week, and protects the worker from discharge due to garnishment.

Union Influences on Compensation Decisions

Unions and labor relations laws also influence pay plan design. The National Labor Relations Act of 1935 (Wagner Act) granted employees the right to unionize and to bargain collectively. Historically, the wage rate has been the main issue in collective bargaining. However, unions also negotiate other pay-related issues, including time off with pay, income security (for those in industries with periodic layoffs), cost-of-living adjustments, and health care benefits.

The Wagner Act created the National Labor Relations Board (NLRB) to oversee employer practices and ensure that employees receive their rights. For example, the NLRB says that employers must give the union a written explanation of the employer's "wage curves"—the graph that relates job to pay rate. The union is also entitled to know members' salaries. [44]

Pay Policies

The employer's compensation strategy will manifest itself in *pay policies.* For example, a top hospital like Johns Hopkins might have a policy of paying nurses 20% above the prevailing market wage. Pay policies can influence the employer's performance and profitability, as the accompanying feature on Wegmans Food Markets illustrates.

Two executives discuss a print layout; one happens to be in a wheelchair. Federal law prohibits discrimination against qualified persons with disabilities in all aspects of employment, including compensation.
Javier Larrea/Pixtal/AGE Fotostock

Managers need pay policies on a range of issues. One is whether to emphasize *seniority* or *performance.* For example, it takes 18 years for a U.S. federal employee to progress from step 1 to step 9 of the government's pay scale. Such seniority-based pay may be advantageous to the extent that seniority is an objective standard. One disadvantage is that top performers may get the same raises as poor ones. Seniority-based pay might seem to be a relic reserved for some government agencies and unionized firms. However, one survey found that 60% of employees responding thought high-seniority employees got the most pay. Only about 35% said their companies paid high performers more. [45]

How to distinguish between *high and low performers* is another policy issue. For example, for many years Payless ShoeSource gave everyone the same raise. However, after seeing its market share drop over several years, management decided on a turnaround strategy. This necessitated revising the firm's compensation policies, to differentiate more aggressively between top performers and others. [46] Other pay policies cover how to award salary increases and promotions, overtime pay, probationary pay, leaves for military service, jury duty, and holidays.

IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Wegmans Food Markets

Strategic compensation management means formulating a total rewards package that produces the employee skills and behaviors that the company needs to achieve its strategic goals.

Wegmans exemplifies this. It competes in the retail food sector, where profit margins are thin and where online competitors and giants like Walmart drive costs and prices down. The usual competitor's reaction is to cut employee benefits and costs. [47] Wegmans takes a different approach. It views its workforce as an integral part of achieving Wegmans's strategic aims of *optimizing service while controlling costs by improving systems and pro-*

ductivity. For example, one dairy department employee designed a new way to organize the cooler, thus improving ordering and inventory control. [48] The firm offers above-market pay rates, affordable health insurance, and a full range of employee benefits. [49] Wegmans's pay policies thus aim to produce exactly the sorts of high-productivity employee behaviors the company needs to achieve its strategic aims.

It's likely that its pay policies are one reason for Wegmans's exceptional profitability. For example, its employee turnover (about 38% for part-timers, 6%–7% for full-timers) is well below the industry's overall average of about 47%. [50] Its stores (which at about 120,000 square feet are much larger than competitors') average about $950,000 a week in sales (compared to a national average of $361,564), or about $49 million in sales annually, compared with a typical Walmart store's grocery sales of $23.5 million in sales. [51] As Wegmans's human resource head has said, good employees assure higher productivity, and that translates into better bottom-line results. [52]

*Source: Based on Demby, "Two Stores Refused to Join the Race."; **www.wegmans.com**; Demby, "Two Stores Refuse to Join the Race," www.hoovers.-com/company/Wegmans_Food_Markets_Inc/cfhtji-1.Html.*

If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete this discussion question.

Talk About It 1:

If Wegmans does so well with a high-pay policy, why don't more employers do this as well?

GEOGRAPHY How to account for geographic differences in cost of living is another big pay policy issue. For example, the average base pay for an office supervisor ranges from about $49,980 in Florida to $60,980 in New York. [53]

Employers handle cost-of-living differentials for transferees in several ways. One is to pay a differential for ongoing costs in addition to a one-time allocation. For example, one employer pays a differential of $6,000 per year to people earning $35,000 to $45,000 whom it transfers from Atlanta to Minneapolis. Others simply raise the employee's base salary. The accompanying feature on compensating expatriate employees expands on this.

IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Compensating Expatriate Employees

The question of cost-of-living differentials has particular significance to multinational firms, where pay rates range widely from, say, France to Zambia.

How should multinationals compensate expatriate employees—those it sends overseas? Two basic international compensation policies are popular: home-based and host-based plans. [54]

With a *home-based salary plan*, an international transferee's base salary reflects his or her home country's salary. The employer then adds allowances for cost-of-living differences—housing and schooling costs, for instance. This is a reasonable approach for short-term assignments, and avoids the problem of having to change the employee's base salary every time he or she moves.

In the *host-based plan*, the firm ties the international transferee's base salary to the host country's salary structure. In other words, the manager from New York who is sent to France would have his or her base salary changed to the prevailing base salary for that position in France, rather than keep the New York base salary. The firm usually tacks on cost-of-living, housing, schooling, and other allowances here as well.

Most multinational enterprises set expatriates' salaries according to the *home-based salary plan*. (Thus, a French manager assigned to Kiev by a U.S. multinational will generally have a base salary that reflects the salary structure in the manager's home country, in this case France.) In addition, the person typically gets allowances including cost-of-living, relocation, housing, education, and hardship allowances (for more challenging countries). The employer also usually pays any extra tax burdens resulting from taxes the manager is liable for over and above those he or she would have to pay in the home country.

Source: Based on Compensation Management.

If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete this discussion question.

Talk About It 2:

Why do you think most employers opt for the home-based salary plan?

Job Evaluation Methods

Learning Objective 11-2

> Define and give an example of how to conduct a job evaluation.

Employers use two basic approaches to setting pay rates: *market-based approaches* and *job evaluation methods*. Many firms, particularly smaller ones, simply use a *market-based* approach. Doing so involves conducting formal or informal salary surveys to determine what others in the relevant labor markets are paying for particular jobs. They then use these figures to price their own jobs. *Job evaluation methods* involve assigning values to each of the company's jobs. This process helps produce a pay plan in which each job's pay is equitable based on what other employers are paying for these jobs *and* based on each job's value to the employer. [55]

Job evaluation is a formal and systematic comparison of jobs to determine the worth of one job relative to another. Job evaluation aims to determine a job's relative worth. Job evaluation eventually results in a *wage* or *salary structure* or hierarchy (this shows the pay rate for various jobs or groups of jobs). The basic principle of job evaluation is this: Jobs that require greater qualifications, more responsibilities, and more complex job duties should receive more pay than jobs with lesser requirements. [56] The basic job evaluation procedure is to compare jobs in relation to one another—for example, in terms of required effort, job complexity, and skills. Suppose you know (based on your job evaluation) the relative worth of the key jobs in your firm. You then conduct a salary survey to see what others are paying for similar jobs. By combining the information from the job evaluation and from the salary survey, you are on your way to being able to create a **market-competitive pay plan**—one where your pay rates are equitable both internally (based on each job's relative value) and externally (in other words when compared with what other employers are paying).

Compensable Factors

You can use two basic approaches to compare the worth of several jobs. First, you might decide that one job is more important than another is, and not dig any deeper. As an alternative, you could compare the jobs by focusing on certain basic factors the jobs have in common. Compensation management specialists call these **compensable factors**. They are the factors that establish how the jobs compare to one another, and that determine the pay for each job.

The job evaluation committee typically includes at least several employees, and has the important task of evaluating the worth of each job using compensable factors.

Noel Hendrickson/Blend Images/AGE Fotostock

Some employers develop their own compensable factors. However, most use factors popularized by packaged job evaluation systems or by federal legislation. For example, the Equal Pay Act uses four compensable factors—skills, effort, responsibility, and working conditions. The method popularized by the Hay consulting firm emphasizes three factors: know-how, problem solving, and accountability. Walmart uses knowledge, problem-solving skills, and accountability requirements.

Choosing compensable factors plays a big role in job evaluation. You usually compare each job with all comparable jobs using the same compensable factors. However, the compensable factors you use depend on the job and the job evaluation method. For example, “decision making” might make sense for a manager’s job, but not for a cleaner’s job. [57]

Preparing for the Job Evaluation

Job evaluation is a judgmental process and demands close cooperation among supervisors, HR specialists, and employees and union representatives. The initial steps include identifying the need for the program, getting cooperation, and then choosing an evaluation committee. The committee then performs the actual evaluation.

Identifying the need for job evaluation shouldn’t be difficult. For example, dissatisfaction reflected in high turnover, work stoppages, or arguments may result from paying employees different rates for similar jobs. Managers may express uneasiness with an informal way of assigning pay rates.

Employees may fear that a systematic evaluation of their jobs may reduce their pay rates, so *getting employees to cooperate* in the evaluation is important. For example, you can tell employees that because of the impending job evaluation program, pay rate decisions will no longer be made just by management whim, and that no current employee’s rate will be adversely affected because of the job evaluation.

Finally, *choose a job evaluation committee.* The committee usually consists of about five members, most of whom are employees. Management has the right to serve on such committees, but employees may view this with suspicion. However, a human resource specialist can usually be justified to provide expert assistance. Union representation is possible. In most cases, though, the union's position is that it is accepting the results of the job evaluation only as an initial decision and is reserving the right to appeal actual job pricing decisions through grievance or bargaining channels. [58] Once appointed, each committee member should receive a manual explaining both the job evaluation process and how to conduct the job evaluation.

The evaluation committee then performs three main functions. First, it usually identifies 10 or 15 key **benchmark jobs**. These will be the first jobs they'll evaluate and will serve as the anchors or benchmarks against which the relative importance or value of all other jobs is compared. Next, the committee may select *compensable factors* (although the human resources department will usually choose these). Finally, the committee performs its most important function—actually *evaluating the worth of each job.* For this, the committee will probably use one of the following methods: ranking, job classification, or point method.

Job Evaluation Methods: Ranking

The simplest job evaluation method ranks each job relative to all other jobs, usually based on some overall factor like "job difficulty." There are several steps in the job **ranking method**.

1. ***Obtain job information.*** Job analysis is the first step. Here job descriptions for each job are prepared, and the information they contain about the job's duties is usually the basis for ranking jobs. (Sometimes job specifications are also prepared. However, the ranking method usually ranks jobs based on the whole job, rather than on several compensable factors. Therefore, job specifications, which tend to list job demands in terms of compensable factors such as problem solving, decision making, and skills, are not as important with ranking as they are for other job evaluation methods.)
2. ***Select and group jobs.*** It is usually not practical to make a single ranking for all jobs in an organization. The usual procedure is to rank jobs by department or in clusters (such as factory workers or clerical workers). This removes the need for direct comparison of, say, factory jobs and clerical jobs.
3. ***Select compensable factors.*** In the ranking method, it is common to use just one factor (such as job difficulty) and to rank jobs based on the whole job. However regardless of the number of factors you choose, explain the definition of the factor(s) to the evaluators carefully so that they all evaluate the jobs consistently.
4. ***Rank jobs.*** For example, each rater gets a set of index cards, each of which contains a brief description of a job. Then they arrange these cards from lowest to highest. Some managers use an "alternation ranking method" to make this procedure more accurate. Here you take the cards, first choosing the highest and the lowest, then the next highest and next lowest, and so forth, until you've ranked all the cards. Table 11-2 illustrates such a job ranking. Jobs in this small health facility rank from orderly up

to office manager. The corresponding current pay scales are shown in the column following the job titles. (After ranking, it is possible to slot additional jobs based on their difficulty between those already ranked and to assign each an appropriate wage rate.) The ranked listing of jobs enables us to compare each job's rank with its current pay, and decide if what we are currently paying is internally equitable; we may adjust a job's pay up or down, based on this. Online programs (for example, go to **www.hr-guide.com**, click under "Job Evaluation, Ranking," and then click "Interactive Ranking Program") can help you rank (and check the rankings of) your positions. [59]

5. ***Combine ratings.*** Usually, several raters rank the jobs independently. Then the rating committee (or the employer) can simply average the raters' rankings.
6. ***Compare current pay with what others are paying based on salary survey.*** Next, we show on the same table (in the middle column) what others in the community are paying for similar jobs, based on a salary survey that we conduct. This helps us ensure that our pay will be *externally* equitable.
7. ***Assign a new pay scale.*** Finally, we compare what we are currently paying for each job with what others are paying, and decide (in this case) to adjust our pay scale by raising what we pay for each job. The last column therefore shows our new pay scale.

Table 11-2

Job Ranking at Jackson Hospital

Ranking Order	Our Current Annual Pay Scale	What Others Pay: Salary Survey Pay	Our Final Assigned Pay
1. Office manager	$43,000	$45,000	$44,000
2. Chief nurse	42,500	43,000	42,750
3. Bookkeeper	34,000	36,000	35,000
4. Nurse	32, 500	33,000	32,750
5. Cook	31,000	32,000	31,500
6. Nurse's aide	28,500	30,500	29,500
7. Orderly	25,500	27,000	27,000

Note: After ranking, it becomes possible to slot additional jobs (based on overall job difficulty, for instance) between those already ranked and to assign each an appropriate wage rate.

This is the simplest job evaluation method, as well as the easiest to explain. And it usually takes less time than other methods.

Drawbacks derive more from how managers use ranking than from the method itself. For example, there's a tendency to rely too heavily on "guesstimates" (of things like overall difficulty), since ranking usually does not use compensable factors. Similarly, ranking provides no yardstick for quantifying the value of one job relative to another. For example, job number 4 may in fact be five times "more valuable" than job number 5, but with the ranking method all you know is that one job ranks higher than the other. Ranking is usually more appropriate for small employers that can't afford the time or expense of a more elaborate method.

The *factor comparison method* is a special ranking method. It requires ranking each of a job's "factors" (such as education required, experience, and complexity), and then adding up the points representing the number of "degrees" of each factor each job has. Employers seldom use it today.

Job Evaluation Methods: Job Classification

Job classification (or job grading) is a simple, widely used job evaluation method in which raters categorize jobs into groups; all the jobs in each group are of roughly the same value for pay purposes. We call these groups **classes** if they contain similar jobs, or **grades** if they contain jobs that are similar in difficulty but otherwise different. Thus, in the federal government's pay grade system, a "press secretary" and a "fire chief" might both be graded "GS-10" (GS stands for "General Schedule"). On the other hand, in its job class system, the state of Florida might classify all "secretary IIs" in one class, all "maintenance engineers" in another, and so forth.

In practice, there are several ways to categorize jobs. One is to write class or grade summaries or descriptions (similar to job descriptions); you then place jobs into the classes or grades based on how well they fit these descriptions. Another is to write a set of compensable factor-based rules for each class (for instance, how much independent judgment, skill, and physical effort does the class of jobs require?). Then categorize each job according to these rules.

The usual procedure blends these two: the analysts choose compensable factors and then develop short class or grade descriptions that describe each class (or grade) in terms of the amount or level of the factors in those jobs. For example, the U.S. government's classification system uses eight compensable factors: (1) difficulty and variety of work, (2) supervision received and exercised, (3) judgment exercised, (4) originality required, (5) nature and purpose of interpersonal work relationships, (6) responsibility, (7) experience, and (8) knowledge required. Based on these compensable factors, raters write a **grade definition** like that in **Figure 11-4**. This one shows one grade description (for grade GS-7) for the federal government's pay grade system. Then the evaluation committee reviews all job descriptions and slots each job into its appropriate grade, by comparing each job description to the rules in each grade description. Thus, the federal government system classifies the positions *automotive mechanic, welder, electrician*, and *machinist* in grade GS-10.

Figure 11-4

Example of a Grade Definition

Grade	Nature of Assignment	Level of Responsibility
GS-7	Performs specialized duties in a defined functional or program area involving a wide variety of problems or situations; develops information, identifies interrelationships, and takes actions consistent with objectives of the function or program served.	Work is assigned in terms of objectives, priorities, and deadlines; the employee works independently in resolving most conflicts; completed work is evaluated for conformance to policy; guidelines, such as regulations, precedent cases, and policy statements require considerable interpretation and adaptation.

Source: From "Grade Level Guide for Clerical and Assistance Work" from U.S. Office of Personnel Management, June 1989.

The classification method has several advantages. The main one is that most employers usually end up grouping jobs into classes or grades anyway, regardless of the evaluation method they use. They do this to avoid having to price separately dozens or hundreds of jobs. Of course, the job classification automatically groups the employer's jobs into classes. The disadvantages are that it isn't easy to write the class or grade descriptions, and considerable judgment is required to apply them. Yet many employers use this method with success.

Job Evaluation Methods: Point Method

The **point method**'s overall aim is to determine the degree to which the jobs you're evaluating contain selected compensable factors. It involves identifying several compensable factors for the jobs, as well as the degree to which each factor is present in each job. Assume there are five degrees of the compensable factor "responsibility" a job could contain. Further, assume you assign a different number of points to each degree of each compensable factor. Once the evaluation committee determines the degree to which each compensable factor (like "responsibility" and "effort") is present in a job, it can calculate a total point value for the job by adding up the corresponding degree points for each factor. The result is a quantitative point rating for each job. The point method of job evaluation is the most popular job evaluation method today. [60]

"PACKAGED" POINT PLANS A number of groups (such as the Hay Group, the National Electrical Manufacturer's Association, and the National Trade Association) have developed standardized point plans. Many thousands of employers use these systems. They contain ready-made factor and degree definitions and point assessments for a wide range of jobs. Employers can often use them with little or no modification.

Computerized Job Evaluations

Using job evaluation methods such as the point method can be time-consuming. Accumulating the information about “how much” of each compensable factor the job contains is a tedious process. The evaluation committees must debate the level of each compensable factor in each job. They then write down their consensus judgments and compute each job’s point values or rankings. Many employers therefore turn to computerized systems.

Most such computerized systems have two main components. [61] There is, first, a structured questionnaire. This contains items such as “enter total number of employees who report to this position.” Second, such systems may use statistical models. These allow the computer program to price jobs more or less automatically, by assigning points based on the questionnaire responses.

How to Create A Market-Competitive Pay Plan

Learning Objective 11-3

> Explain in detail how to establish a market-competitive pay plan.

As we said, many firms simply price their jobs based on what other employers are paying—they just use a market-based approach. However, most employers also base their pay plans on job evaluation methods like those just described. These evaluations assign values (such as point values) to each job. This helps to produce a pay plan in which each job's pay is internally equitable, based, as it is, on the job's value to the employer (as measured, for instance, by how many points it warrants). However, even with the job evaluation approach, managers must adjust pay rates to fit the market. [62] After all, you want employees' pay to be equitable internally—relative to what their colleagues in the firm are earning—but also competitive externally—relative to what *other employers* are paying. In a *market-competitive pay plan* a job's compensation reflects the job's value in the company, as well as what other employers are paying for similar jobs in the marketplace. Because the point method (or "point-factor method") is so popular, we'll use it as the centerpiece of our step-by-step example for creating a market-competitive pay plan. [63] The 16 steps in creating a market-competitive pay plan begin with choosing benchmark jobs.

1. Choose Benchmark Jobs

Particularly when an employer has dozens or hundreds of different jobs, it's impractical and unnecessary to evaluate each of them separately. Therefore, the first step in the point method is to select benchmark jobs. Benchmark jobs are representative of the jobs the employer needs to evaluate. Like "accounting clerk" they should be common among employers (thus making it easier to survey what competitors are paying for similar jobs). [64]

2. Select Compensable Factors

The choice of compensable factors depends on tradition (as noted, the Equal Pay Act of 1963 uses four compensable factors: skill, effort, responsibility, and working conditions), and on strategic and practical considerations. For example, if your firm's competitive advantage is quality, you might substitute "responsibility for quality" for working conditions, or simply add it as a fifth factor. [65] Similarly, using "working conditions" makes little practical sense for evaluating executive jobs.

The employer should carefully define each factor. This is to ensure that the evaluation committee members will each apply the factors with consistency. **Figure 11-5** shows (on top) one such definition, in this case for the factor job complexity. The human resource specialist often draws up the definitions.

Figure 11-5

Illustrative Point Values and Degree Definitions for the Factor Job Complexity

Factor Definition: What Is Job Complexity? Job complexity generally refers to the amount of judgment, initiative, ingenuity, and complex data analysis that doing the job requires. To what extent does the person doing this job confront unfamiliar problems, deal with complex decisions, and have to exercise discretion?

Degree	Points	Job Complexity Degree Definitions: What to Look for in the Job
First	120	Here the job is routine and consists of repetitive operations requiring little or no choice of action and the automatic application of easily understood rules and procedures. For example, a filing clerk.
Second	240	Here the employee follows detailed instructions but may have to make limited decisions based on previously prescribed instructions which lay our prescribed alternatives. For example, a billing clerk or a receptionist.
Third	360	Here the employee again follows detailed instructions but because the number of matters to consider is more varied the employee needs to exhibit initiative and independent judgment, under direct supervision. For example, a nurse's aide.
Fourth	480	Here the employee can generally follow standard practices but the presence of nonroutine problems requires that the employee be able to use initiative and judgment to analyze and evaluate situations, possibly modifying the standard procedures to adjust to the new situations. For example, a nurse.
Fifth	600	On this job, the employee needs to use independent judgment and plan and perform complex work under only general supervision, often working independently toward achieving overall results. For example, medical intern.

Source: Copyright Gary Dessler, PhD.

3. Assign Weights to Compensable Factors

Having selected compensable factors, the next step is to determine the relative importance (or weighting) of each factor (for instance, how much more important is “skill” than “effort”?). This is important because for each cluster of jobs some factors are bound to be more important than others are. Thus, for executive jobs the “mental requirements” factor would carry far more weight than would “physical requirements.” To assign weights, we assume we have a total 100 percentage points to allocate for each job. Then (as an illustration), assign percentage weights of 60% for the factor job complexity, 30% for effort, and 10% for working conditions. [66]

4. Convert Percentages to Points for Each Factor

Next, we want to convert the percentage weights assigned to each compensable factor into point values for each factor (this is, after all, the point method). It is traditional to assume we are working with a total of l,000 points (although one could use some other figure). To convert percentages to points for each compensable factor, *multiply the percentage weight for each compensable factor (from the previous step) by 1,000*. [67] This will tell you the *maximum number of points* for each compensable factor. Doing so in this case would translate into 1,000 × 0.60 = 600 possible points for job complexity, 1,000 × 0.30 = 300 points for effort, and 1,000 × 0.10 = 100 points for working conditions.

5. Define Each Factor's Degrees

Next, split each factor into degrees, and define (write degree definitions for) each degree so that raters may judge the amount or degree of a factor existing in a job. Thus, for a compensable factor such as "job complexity" you might choose to have five degrees, ranging from "here the job is routine" to "uses independent judgment." (Our definitions for each degree are shown in **Figure 11-5** under "Job Complexity Degree Definitions: What to Look For in the Job.") The number of degrees usually does not exceed five or six, and the actual number depends mostly on judgment. Thus, if all employees work either in a quiet, air-conditioned office or in a noisy, hot factory, then two degrees would probably suffice for the factor "working conditions." You need not have the same number of degrees for each factor, and you should limit degrees to the number necessary to distinguish among jobs.

6. Determine for Each Factor Its Factor Degrees' Points

The evaluation committee must be able to determine the number of points each job is worth. To do this, the committee must be able to examine each job and (from each factor's degree definitions) *determine what degree of each compensable factor* that job has. For them to do this, we must first assign points to *each degree of each compensable factor*. For example, in our illustration, we have five possible degrees of job complexity, and the job complexity compensable factor is worth up to 600 points maximum. In our case, we simply decide that the first degree level of job complexity is worth 120 (or one-fifth of 600) points, the second degree level is worth 240 points, the third degree level is worth 360 points, the fourth degree level is worth 480 points, and the fifth degree is worth the maximum 600 points (see **Figure 11-5**).[68] Do this for each factor (as in **Table 11-3**).

Table 11-3

Points Assigned to Factors and to Their Degrees (Revised)

Factors	First-Degree Points	Second-Degree Points	Third-Degree Points	Fourth-Degree Points	Fifth-Degree Points
Job complexity (Total maximum points equal 600)	120	240	360	480	600
Effort (Total maximum points equal 300)	60	120	180	240	300
Working conditions (Total maximum points equal 100 points)	20	40	60	80	100

7. Review Job Descriptions and Job Specifications

The heart of job *evaluation* involves determining the amount or degree to which the job contains the selected compensable factors such as effort, job complexity, and working conditions. The team conducting the job evaluation will frequently do so by first reviewing each job's job description and job specification. As we explained in **Chapter 4** (Job Analysis), it is through the job analysis that the manager identifies the job's duties and responsibilities and writes the job description and job specification. Ideally therefore, the job analyst included in the job description and specification information about the compensable factors (such as job complexity) around which the employer plans to build its compensation plan. [69]

8. Evaluate the Jobs

Steps 1–7 provide us with the information (for instance, on points and degrees) based on which we can evaluate the jobs. The committee has now gathered the job descriptions and job specifications for the benchmark jobs they will focus on.

Then, from their review of each job description and job specification, the committee *determines the degree to which each compensable factor is present in each job*. Thus for, say, a job of master mechanic, the team might conclude (after studying the job description and job specification) that the master mechanic's job deserves the third degree level of *job complexity* points, the first degree level of *effort*, and the first degree level of *working conditions*.

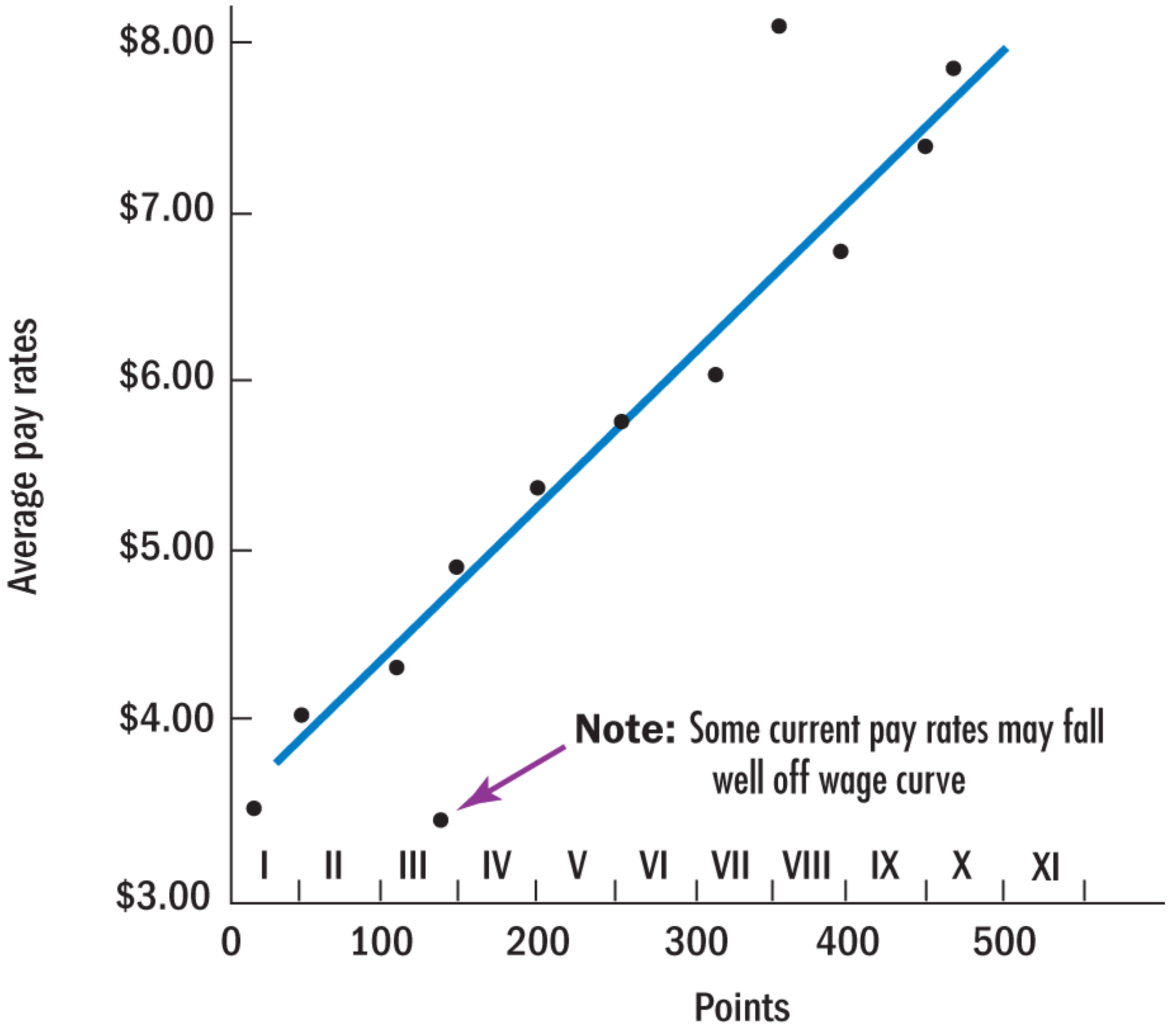
Knowing the job complexity, effort, and working conditions degrees for each job, *and knowing the number of points we previously assigned to each degree* of each compensable factor, we can now determine how many job complexity, effort, and working conditions points each benchmark job should contain. (We know the degree level for each factor for each job, so we merely check the corresponding points (see **Table 11-3**) that we previously assigned to each of these degrees.)

Finally, we add up these degree points for each job to determine each job's total number of points.[70] The master mechanic job gets 360 + 60 + 20 = 440 points from **Table 11-3**. This enables us to list a hierarchy of jobs, based upon each job's points. We can soon turn to assigning wage rates to each job (step 9). But first, we should define market-competitive pay plan and wage curve.

What should the pay rate be for each job? Of course, jobs with more points should command higher pay. The question is what pay rate to use. Our company's current, "internal" pay rates? Or pay rates based on what the "external" market is paying?[71]

With a **market-competitive pay system**, the employer's actual pay rates are competitive with those in the relevant labor market, as well as equitable internally.[72] Put simply, the basic approach is to compare what the employer is *currently* paying for each job ("internal pay") with what the market is paying for the same or similar job ("external pay"), and then to combine this information to produce a market-competitive pay system.

Figure 11-6
Plotting a Wage Curve



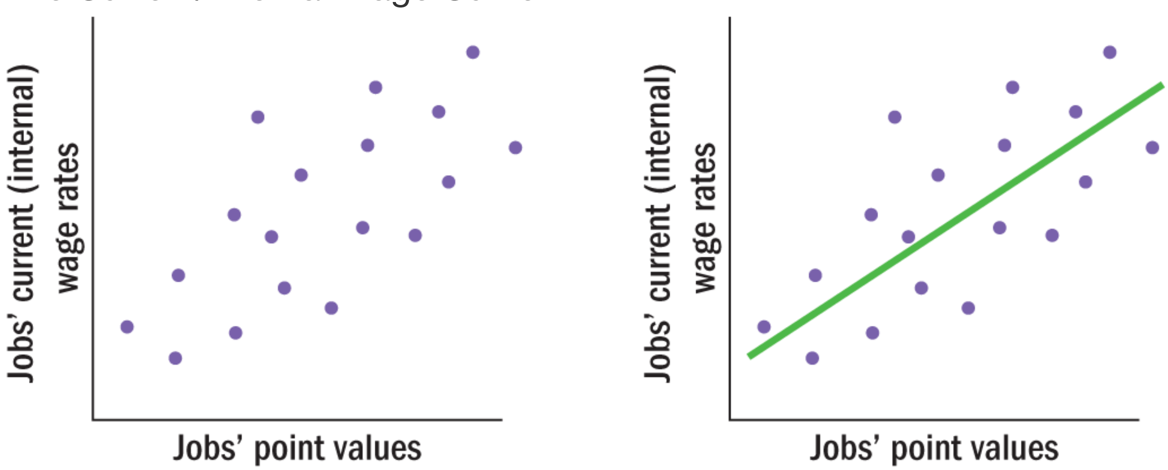
WAGE CURVES **Wage curves** play a central role in assigning wage rates to jobs. The wage curve typically shows the pay rates paid for jobs, relative to the points or rankings assigned to each job by the job evaluation. **Figure 11-6** presents an example. Note that it shows pay rates for jobs on the vertical axis, and point values for these jobs along the horizontal axis. The purpose of the wage curve is to show the relationships between (1) the value of the job (expressed in points) as determined by one of the job evaluation methods and (2) the pay rates for the job. (We'll see that many employers may combine jobs into classes or grades. Here the wage curve would show the relationship between average pay rates for each grade, and each grade's average point value.) The pay rates on the wage curve are traditionally those now paid by the employer. However, if there is reason to believe the current pay rates are out of step with the market rates for these jobs, the employer will have to adjust them. One way to do this is to compare a wage curve that shows the jobs' *current* wage rates relative to the jobs' points, with a second curve that shows *market* wage rates relative to points. We do this as follows.

9. Draw the Current (Internal) Wage Curve

First, to study how each job's points relates to its current pay rate, we start by drawing an *internal wage curve.* Plotting each job's points and the wage rate the employer is now paying for each job (or wage rates, if there are several for each job) produces a scatter plot as in **Figure 11-7** (left). We now draw a wage curve (on the right) through these plots that shows how point values relate to current wage rates. We can draw this wage line by just estimating a line that best fits the plotted points (by minimizing the distances between the plots and the curve). Or we can use regression, a statistical technique. Using the latter will produce a current/internal wage curve that best fits the plotted points. In any case, we show the results in **Figure 11-7** (right). [73]

Figure 11-7

The Current/Internal Wage Curve



10. Conduct a Market Analysis: Salary Surveys

Next, we must compile the information needed to draw an *external wage curve* for our jobs, based on what other employers are paying for similar jobs. **Salary surveys** —surveys of what others are paying—play a big role in pricing jobs. [74] Employers use salary surveys in three ways. First, they use survey data to price benchmark jobs. Benchmark jobs are the anchor jobs around which they slot their other jobs, based on each job's relative worth to the firm. Second, employers typically price 20% or more of their positions directly in the marketplace (rather than relative to the firm's benchmark jobs), based on a survey of what comparable firms are paying for comparable jobs. (Google might do this for jobs like systems engineer, whose salaries fluctuate widely and often.) Third, surveys also collect data on benefits like insurance, sick leave, and vacations for decisions regarding employee benefits.

Salary surveys can be formal or informal. *Informal* phone or Internet surveys are good for checking specific issues, such as when a bank wants to confirm the salary at which to advertise a newly open teller's job, or whether some banks are really paying tellers an incentive. Some large employers can afford to send out their own *formal* surveys to collect compensation information from other employers. These ask about things like number of employees, overtime policies, starting salaries, and paid vacations.

Many employers use surveys published by consulting firms, professional associations, or government agencies. For example, the U.S. Department of Labor's Bureau of Labor Statistics' (BLS) *National Compensation Survey (NCS)* provides comprehensive reports of occupational earnings, compensation cost trends, and benefits (**www.bls.gov/bls/wages.htm**).

Detailed occupational earnings are available from the national compensation survey for over 800 occupations in the United States, calculated with data from employers in all industry sectors in every State and the District of Columbia (**http://stats.bls.gov/oes/current/oes_nat.htm**). The *Current Employment Statistics Survey* is a monthly survey of the payroll records of business establishments that provides data on earnings of production and nonsupervisory workers at the national level. This provides information about earnings as well as production bonuses, commissions, and cost-of-living increases. The *National Compensation Survey—Benefits* provides information on the share of workers who participate in specified benefits, such as health care, retirement plans, and paid vacations. These data also show the details of those benefits, such as amounts of paid leave. Internationally, the BLS reports comparative hourly compensation costs in local currencies and U.S. dollars for production workers and all employees in manufacturing in its international labor comparisons tables.

Private consulting and/or executive recruiting companies like Hay & Associates, Towers Watson Global Data Services, and Aon/Hewitt (**www.aon.com**) publish data covering compensation for top and middle management and members of boards of directors. Professional organizations like the Society for Human Resource Management and the

Financial Executives Institute publish surveys of compensation practices among members of their associations. [75]

USING THE INTERNET TO DO COMPENSATION SURVEYS Internet-based options makes it easy for anyone to access published compensation survey information. Table 11-4 shows some popular salary survey Web sites.

Table 11-4

Some Pay Data Web Sites

Sponsor	Internet Address	What It Provides	Downside
Salary.com	www.salary.com	Salary by job and ZIP code, plus job and description, for hundreds of jobs	Adapts national averages by applying local cost-of-living differences
U.S. Office of Personnel Management	www.opm.gov/oca/09Tables/index.asp	Salaries and wages for U.S. government jobs, by location	Limited to U.S. government jobs
Job Star	http://jobstar.org/tools/salary/sal-prof.php	Profession-specific salary surveys	Necessary to review numerous salary surveys for each profession
CNN Money	http://money.cnn.com	Input your current salary and city; for comparable salary in destination city	Based on national averages adapted to cost-of-living differences

Many of these sites, such as Salary.com, provide national salary levels for jobs that the site then arithmetically adjusts to each locale based on cost-of-living formulas. To get a real-time picture of what employers in your area are actually paying for, say, accounting clerks, it's useful to access the online Internet sites of one or two of your local newspapers.

For example, the *South Florida Sun-Sentinel* (and many papers) uses a site called Careerbuilder.com. It lists just about all the job opportunities listed in the newspaper by category and, in many instances, their wage rates (www.careerbuilder.com).

11. Draw the Market (External) Wage Curve

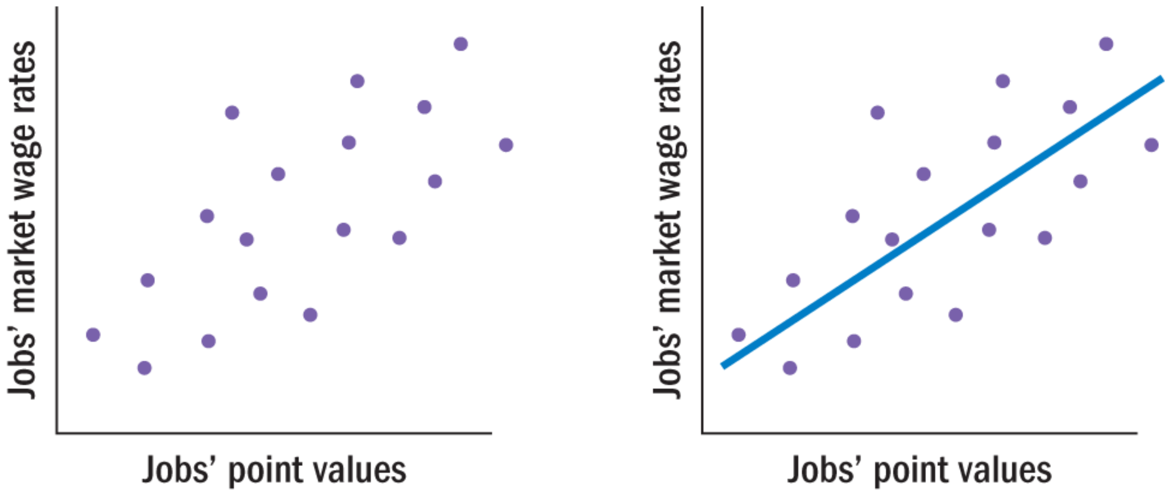
The current/internal wage curve from step 9 is helpful. For example showing, as it does, how a job's current pay rate compares with its points helps the employer identify jobs for which pay rates are currently too high or too low, relative to other jobs in the company. (For example, if a job's current wage rate is well above the internal wage curve, it suggests that the present wage rate for that job is inequitably high, given the number of points we've assigned to that job.)

What the current (internal) wage curve does *not* reveal is whether our pay rates are too high, too low, or just right relative to what other firms are paying. For this, we need to draw a *market* or *external wage* curve.

To draw the market/external wage curve, we produce a scatter plot and wage curve as in **Figure 11-8** (left and right). However, instead of using our firm's current wage rates, we use market wage rates (obtained from salary surveys). The market/external wage curve thereby compares our jobs' points with market pay rates for our jobs.

Figure 11-8

The Market/External Wage Curve

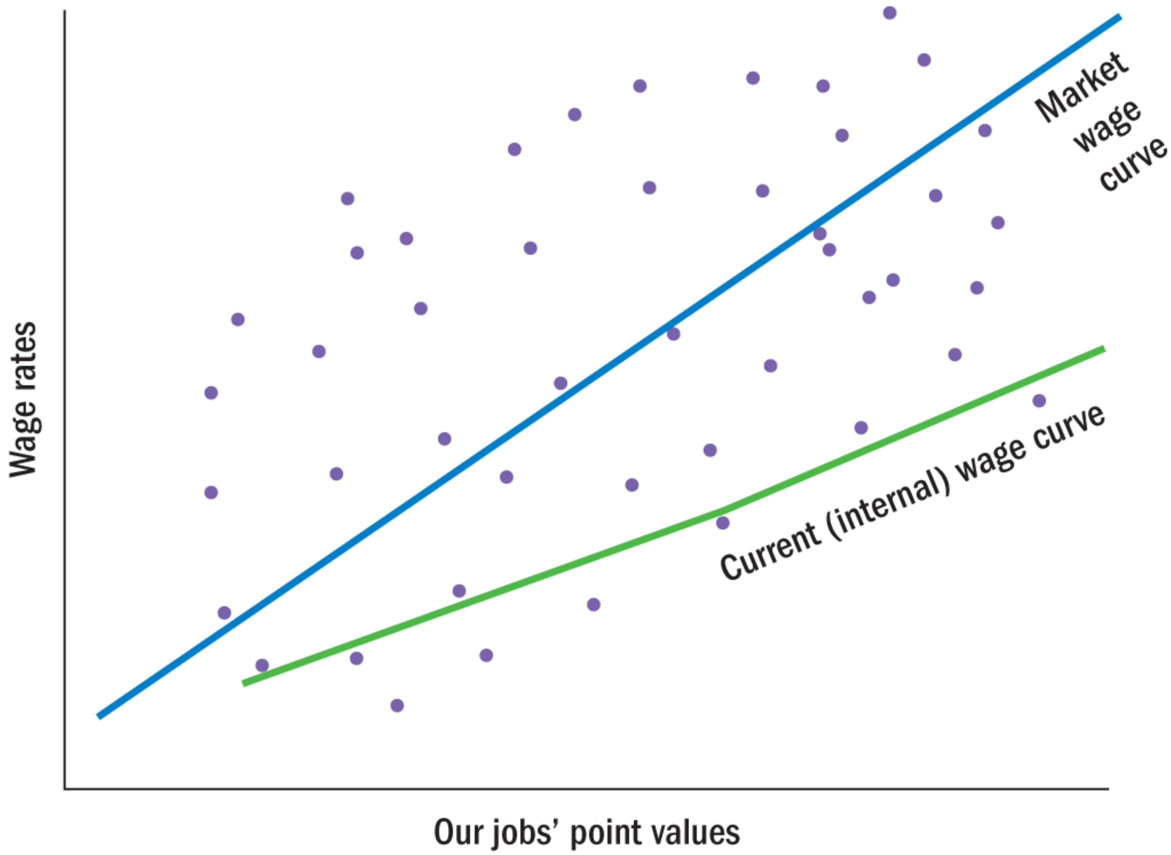


12. Compare and Adjust Current and Market Wage Rates for Jobs

How different are the market rates other employers are paying for our jobs and the current rates we are now paying for our jobs? To determine this, we combine both the current/internal and market/external wage curves on one graph, as in **Figure 11-9**. The market wage curve might be higher than our current wage curve (suggesting that our current pay rates may be too low), or below our current wage curve (suggesting that our current wage rates might be too high). Or perhaps market wage rates are higher for some of our jobs and lower for others. 76

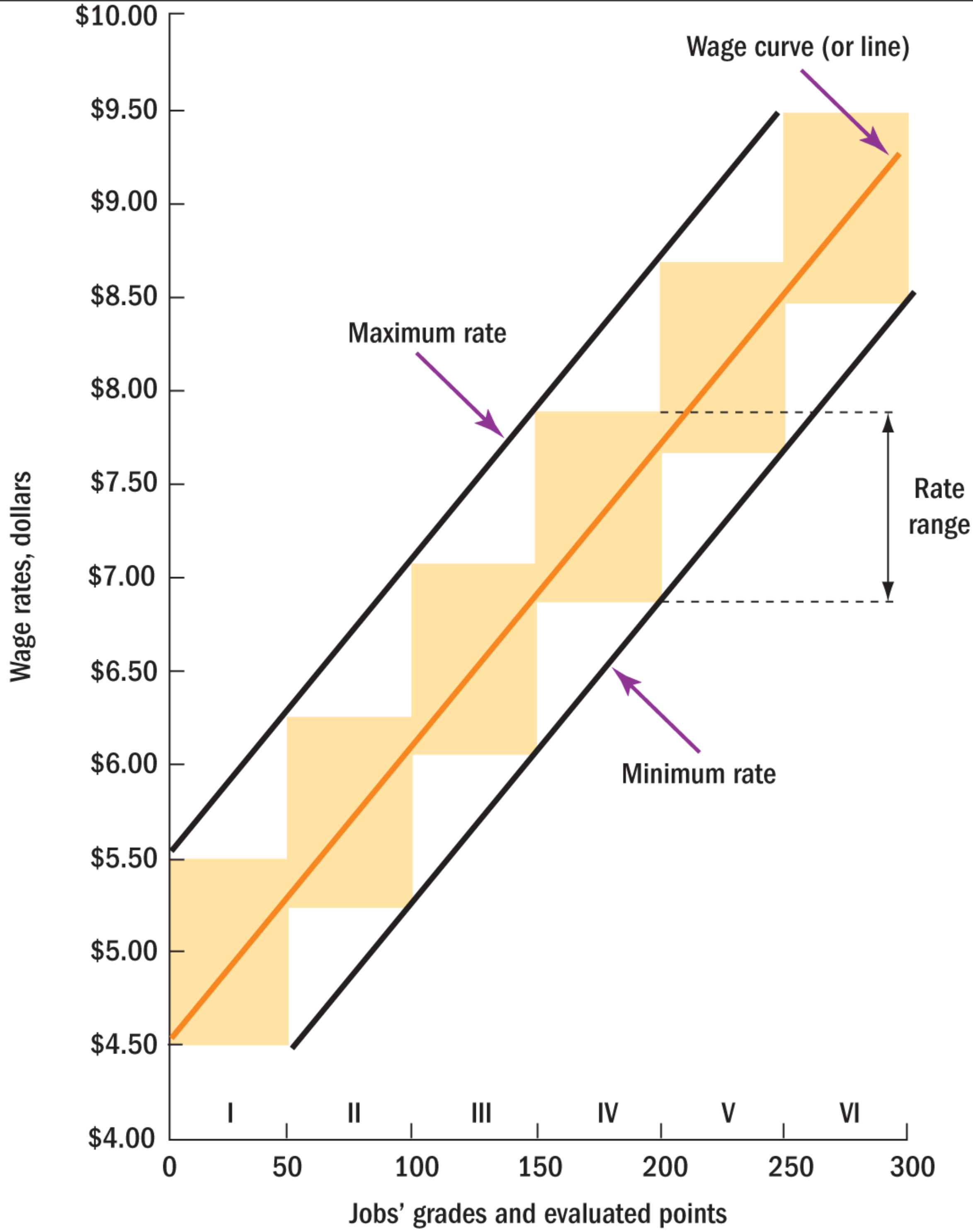
Figure 11-9

Plotting Both the Market and Internal Wage Curves



Based on comparing the current/internal wage curve and market/external wage curve in Figure 11-9, we must decide whether to adjust the current pay rates for our jobs, and if so how. This calls for a policy decision by management. Strategic considerations influence this decision. Do our strategic aspirations suggest we should pay more, the same, or less than competitors? For example, we might decide to move our current internal wage curve up (and thereby give everyone a raise), or down (and thereby perhaps withhold pay increases for some time), or adjust the slope of the internal wage curve to increase what we pay for some jobs and decrease what we pay for others. In any case, the wage curve we end up with (the orange line in **Figure 11-10**) should now be equitable internally (in terms of the point value of each job) and equitable externally (in terms of what other firms are paying). [77]

Figure 11-10
Wage Structure


Wage curve (or line)
Maximum rate
Rate range
Minimum rate
Wage rates, dollars
$10.00
$9.50
$9.00
$8.50
$8.00
$7.50
$7.00
$6.50
$6.00
$5.50
$5.00
$4.50
$4.00
I
II
III
IV
V
VI
0
50
100
150
200
250
300
Jobs' grades and evaluated points

13. Develop Pay Grades

Employers typically group similar jobs (in terms of points) into grades for pay purposes. Then, instead of having to deal with hundreds of job rates, you might only have to focus on, say, pay rates for 10 or 12 pay grades. For example, Serco, a services firm which operates a London, England, light railway system, set up pay grades after ranking jobs using a system based on knowledge, management complexity, and the job's magnitude and impact on the organization. [78]

A **pay (or wage) grade** is composed of jobs of approximately equal difficulty or importance as determined by job evaluation. If you used the point method of job evaluation, the pay grade consists of jobs falling within a range of points. If the ranking method was used, the grade consists of a specific number of ranks. If you use the classification system, then your jobs are already categorized into classes (or grades).

DETERMINING THE NUMBER OF PAY GRADES It is standard to establish grades of equal point spread. (In other words, each grade might include all those jobs falling between 50 and 100 points, 100 and 150 points, 150 and 200 points, etc.) Since each grade is the same width, the main issue involves determining how many grades to have. There doesn't seem to be any optimal number, although 10 to 16 grades for a given job cluster (shop jobs, clerical jobs, etc.) seems to be common. You need more pay grades if there are, say, 1,000 jobs to be graded than if there are only 100.

14. Establish Rate Ranges

Most employers do not pay just one rate for all jobs in a particular pay grade. For example, GE Medical won't want to pay all its accounting clerks, from beginners to long tenure, at the same rate, even though they may all be in the same pay grade. Instead, employers develop vertical pay (or "rate") ranges for each of the horizontal pay grades (or pay classes). These **pay (or rate) ranges** often appear as vertical boxes within each grade, showing minimum, maximum, and midpoint pay rates for that grade, as in **Figure 11-10**. (Specialists call this graph a *wage structure.* **Figure 11-10** graphically depicts the range of pay rates—in this case, per hour—paid for each pay grade.) Alternatively, you may depict the pay range for each class or grade as steps in a table, as in **Table 11-5**. Here you will have specific corresponding pay rates for each step within each grade in tabular form. Thus, **Table 11-5** shows the pay rates and steps for most federal government grades. As of the time of this pay schedule, for instance, employees in positions classified in grade GS-10 could be paid annual salaries between $46,691 and $60,695, depending on the level or step at which they were hired into the grade, the amount of time they were in the grade, and any merit increases they've received.

Table 11-5

SALARY TABLE 2015-GS INCORPORATING THE 1% GENERAL SCHEDULE INCREASE EFFECTIVE JANUARY 2015 *Annual Rates by Grade and Step*											
Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10	Within Grade Amounts
1	$ 18,161	$ 18,768	$ 19,372	$ 19,973	$ 20,577	$ 20,931	$ 21,528	$ 22,130	$ 22,153	$ 22,712	Varies
2	20,419	20,905	21,581	22,153	22,403	23,062	23,721	24,380	25,039	25,698	Varies
3	22,279	23,022	23,765	24,508	25,251	25,994	26,737	27,480	28,223	28,966	743
4	25,011	25,845	26,679	27,513	28,347	29,181	30,015	30,849	31,683	32,517	834
5	27,982	28,915	29,848	30,781	31,714	32,647	33,580	34,513	35,446	36,379	933
6	31,192	32,232	33,272	34,312	35,352	36,392	37,432	38,472	39,512	40,552	1,040
7	34,662	35,817	36,972	38,127	39,282	40,437	41,592	42,747	43,902	45,057	1,155
8	38,387	39,667	40,947	42,227	43,507	44,787	46,067	47,347	48,627	49,907	1,280
9	42,399	43,812	45,225	46,638	48,051	49,464	50,877	52,290	53,703	55,116	1,413
10	46,691	48,247	49,803	51,359	52,915	54,471	56,027	57,583	59,139	60,695	1,556
11	51,298	53,008	54,718	56,428	58,138	59,848	61,558	63,268	64,978	66,688	1,710
12	61,486	63,536	65,586	67,636	69,686	71,736	73,786	75,836	77,886	79,936	2,050
13	73,115	75,552	77,989	80,426	82,863	85,300	87,737	90,174	92,611	95,048	2,437
14	86,399	89,279	92,159	95,039	97,919	100,799	103,679	106,559	109,439	112,319	2,880
15	101,630	105,018	108,406	111,794	115,182	118,570	121,958	125,346	128,734	132,122	3,388

Source: From Salary table 2015-gs Incorporating the 1% general schedule increase Effective january 2015, from ***http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2015/GS.pdf****.*

DEVELOPING RATE RANGES As in **Figure 11-10**, the wage curve usually anchors the average pay rate for each vertical pay range. The firm might then arbitrarily decide on a maximum and minimum rate for each grade, such as 15% above and below the wage curve. As an alternative, some employers allow the pay range for each grade to become taller (they include more pay rates) for the higher pay ranges, reflecting the greater demands and performance variability inherent in more complex jobs. As in **Figure 11-10**, most employers structure their rate ranges to overlap a bit, so an employee in one grade who has more experience or seniority may earn more than would someone in an entry-level position in the next higher pay grade. [79]

There are several reasons to use pay ranges for each pay grade. First, it lets the employer take a more flexible stance in the labor market. For example, it makes it easier to attract experienced, higher-paid employees into a pay grade at the top of the range, since the starting salary for the pay grade's lowest step may be too low to attract them. Pay ranges also let companies provide for performance differences between employees within the same grade or between those with different seniorities.

Compensation experts sometimes use *compa ratios.* The **compa ratio** equals an employee's pay rate divided by the pay range midpoint for his or her pay grade. A compa ratio of 1 means the employee is being paid exactly at the pay range midpoint. If the compa ratio is above 1 then the person's pay rate exceeds the midpoint pay for the job. If it is below then the pay rate is less than the midpoint. The compa ratio can help reveal how many jobs in each pay grade are paid above and below competitive market pay rates. [80]

15. Address Remaining Jobs

To this point, we have focused our job evaluation on a limited number of benchmark jobs, as is traditional. We now want to add our remaining jobs to the wage structure. We can do this in two ways. We can evaluate each of the remaining jobs using the same process we just went through. Or we can simply slot the remaining jobs into the wage structure where we feel they belong, without formally evaluating and assigning points to these jobs. Jobs similar enough to our benchmark jobs we can easily slot into the wage structure. Jobs we're not sure about should undergo the same job evaluation process; we assign points to them and precisely slot them into the wage structure. [81]

16. Correct Out-of-Line Rates

Finally, the wage rate the firm is now paying for a particular job may fall well off the wage curve or well outside the rate range for its grade, as illustrated in **Figure 11-6** (page **362**). This means that the average pay for that job is currently too high or too low, relative to other jobs in the firm. For underpaid jobs, the solution is clear: Raise the wages of underpaid employees to the minimum of the rate range for their pay grade.

Current pay rates falling above the rate range are a different story. These are "red circle," "flagged," or "overrates." There are several ways to cope with this problem. One is to freeze the rate paid to these employees until general salary increases bring the other jobs into line. A second option is to transfer or promote the employees involved to jobs for which you can legitimately pay them their current pay rates. The third option is to freeze the rate for 6 months, during which time you try to transfer or promote the overpaid employees. If you cannot, then cut the rate you pay these employees to the maximum in the pay range for their pay grade. The accompanying HR Tools feature explains a streamlined pay plan procedure for small businesses.

IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Developing a Workable Pay Plan

Pay plans are as important for small firms as a large ones. Pay that is too high wastes money; too low triggers turnover; and internally inequitable causes endless demands for raises. The owner who wants to concentrate on major issues like sales needs a rational pay plan.

Surveying market rates come first. Sites like LinkedIn and **Salary.com** will show localized average pay rates for jobs in your geographic area. The Sunday newspaper classified ads (online and offline) will contain information on wages offered for jobs similar to those you're trying to price. Local job service "one-stop" offices can provide a wealth of information, as they compile extensive information on pay ranges and averages for many jobs. Employment agencies, always anxious to form ties with employers, will provide good data. Local college and university career centers will reveal prevailing pay rates for many jobs. Professional associations (such as the careers link for civil engineers at **www.asce.org**) are good sources of professionals' pay rates.

Smaller firms are making use of the Internet in other ways. StockHouse Media Corp (**www.stockhouse.com**) uses the Web for determining salaries for all the firm's personnel. For example, the HR manager surfs the Web to monitor rates and trends by periodically checking job boards, company Web sites, LinkedIn, and industry associations. [82]

If you employ more than 20 employees or so, conduct at least a rudimentary job evaluation (probably using the ranking method we covered on pages **356**–**357**). You will need job descriptions (see, for example O*NET and jobdescription.com), since these will be the source of data regarding the nature and worth of each job.

You may find it easier to split your employees into three clusters—say, managerial/professional, office/clerical, and plant personnel. For each of the three groups, choose one or more compensable factors. Then rank (or assign points to) each job in that cluster based on, say, a ranking job evaluation. For each job you will then want to create a pay range. In general, you might choose as the midpoint of that range the average market salary for that job, or an average of the market rate and what you are currently paying. Then produce a total range of about 30% around this average, broken into five steps. (Thus, assemblers, one of the plant personnel jobs, might earn from $8.00 to $12.60 per hour, in five steps.)

Required compensation policies will include amount of holiday and vacation pay (as we explain in **Chapter 13**), overtime pay policy, method of pay (weekly, biweekly, monthly), garnishments, and time card or sign-in sheet procedures. Many examples are available online. [83]

If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete these discussion questions.

Talk About It 3:

What type of job evaluation method would you use in a company with 15 employees? Why?

Pricing Managerial and Professional Jobs

Learning Objective 11-4

Explain how to price managerial and professional jobs.

Developing compensation plans for managers or professionals is similar in many respects to developing plans for any employee. The basic aim is the same: to attract, motivate, and retain good employees. And job evaluation is about as applicable to managerial and professional jobs (below the top executive levels) as to production and clerical ones.

There are some big differences though. Managerial jobs tend to stress harder-to-quantify factors like judgment and problem solving more than do production and clerical jobs. There is also more emphasis on paying managers and professionals based on their performance or on what they can do, rather than on static job demands like working conditions. And one must compete in the marketplace for executives who sometimes have rock star pay. So, job evaluation, although still important for management jobs, usually plays a secondary role to issues like bonuses, incentives, market rates, and benefits.

What Determines Executive Pay?

The traditional wisdom is that company size and performance significantly affect top managers' salaries. Yet early studies showed that these explained only about 30% of CEO pay: "In reality, CEO pay is set by the board taking into account a variety of factors such as the business strategy, corporate trends, and most importantly where they want to be in a short and long term." [84] One study concluded that three main factors, *job complexity* (span of control, the number of functional divisions over which the executive has direct responsibility, and management level), the employer's *ability to pay* (total profit and rate of return), and the executive's *human capital* (educational level, field of study, work experience), accounted for about two-thirds of executive compensation variance. [85] In practice, CEOs exercise influence over their boards of directors, so their pay sometimes doesn't reflect strictly arms-length negotiations. [86]

Many employers do use job evaluation for pricing managerial jobs (at least, below the top jobs). The basic approach is to classify executive and management positions into grades, each with a salary range.

As with nonmanagerial jobs, one alternative is to rank the executive and management positions in relation to each other, then group into classes those of similar value. However, firms also use the job classification and point methods, with compensable factors like position scope, complexity, and difficulty. As with any jobs, job analysis, salary surveys, and the fine-tuning of salary levels around wage curves play roles.

Shareholder activism and government oversight have tightened the restrictions on what companies pay top executives. For example, the banking giant HSBC shelved plans to raise its CEO's pay by over a third after shareholders rejected the proposals. [87]

Compensating Executives

Compensation for a company's top executives usually consists of four main elements. [88] *Base pay* includes the person's fixed salary as well as, often, guaranteed bonuses such as "10% of pay at the end of the fourth fiscal quarter, regardless of whether the company makes a profit." *Short-term incentives* are usually cash or stock bonuses for achieving short-term goals, such as year-to-year sales revenue increases. *Long-term incentives* aim to encourage the executive to take actions that drive up the value of the company's stock and include things like stock options; these generally give the executive the right to purchase stock at a specific price for a specific period. Finally, *executive benefits and perks* include things such as supplemental executive retirement pension plans. With so many complicated elements, employers must also be alert to the tax and securities law implications of their executive compensation decisions. [89]

Salary is traditionally the cornerstone of executive compensation. On it, employers layer benefits, incentives, and perquisites—all normally conferred in proportion to base pay. Procter & Gamble Co.'s CEO was paid $15.2 million recently, including a base salary of $1.6 million, a cash-based bonus of $2.4 million, stock options valued at $4.4 million, stock awards of $6.45 million, plus perks such as air travel. [90] Top executive compensation packages can be whoppers. The CEO of Oracle earned just over $96 million in one recent year, and the CEO of Walt Disney Corporation $37.1 million. [91] But overpaid as many critics may think they are, one expert says CEOs with the highest 20% of compensation produced stock returns 60% greater than those of other firms in their industries. [92]

Executive compensation emphasizes performance (discussed in **Chapter 12**) more than do other employees' pay plans, since organizational results reflect executives' contributions more directly than those of lower-echelon employees. [93] Indeed, boards are boosting the emphasis on performance-based pay (in part due to shareholder activism). The big issue here is identifying the appropriate performance measures. Typical short-term measures include revenue growth and operating profit margin. Long-term measures include rate of return above some predetermined base.

Compensating Professional Employees

In compensating professionals, employers should first ensure that the person is actually a "professional" under the law. The Fair Labor Standards Act "provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional and outside sales employees." [94] However, calling someone a professional doesn't make him or her one. In addition to earning at least $455 per week, the person's main duty must "be the performance of work requiring advanced knowledge," and "the advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction." [95] One company hired a high school graduate as an exempt "product design specialist II," earning $62,000 per year. The job required 12 years of relevant experience, but no particular education. The court ruled the job was nonexempt. [96]

Beyond that, compensating professional employees like engineers presents unique problems. [97] Analytical jobs emphasize compensable factors such as creativity and problem solving, ones not easily compared or measured. Furthermore, how do you measure performance? For example, the success of an engineer's design depends on how the firm develops and markets it.

Employers can use job evaluation for professional jobs. Compensable factors here tend to focus on problem solving, creativity, job scope, and technical knowledge and expertise. Firms use the point method and job classification.

Yet, in practice, firms rarely rely on just job evaluation for pricing professional jobs. Factors like creativity (as noted) are hard to measure, and non-pay issues often influence professionals' job decisions. For example, a few years ago Google raised its employees' salaries by 10% in the face of defections by even their highest-paid professionals, such as the head of its Chrome OS team, to Facebook. [98] Many of these Google professionals, although well paid by most standards, still felt underpaid. Some moved to jobs they hoped would have more challenges. Others may have sought younger firms with new stock options.

Most employers therefore emphasize a market-pricing approach for these jobs. They price professional jobs in the marketplace as best they can, to establish the values for benchmark jobs. Then they slot these benchmark jobs and their other professional jobs into a salary structure. Each professional discipline (such as engineer) usually ends up having four to six grade levels, each with a broad salary range. This helps employers remain competitive when bidding for professionals who literally have global employment possibilities. [99]

Improving Performance Through HRIS: Payroll Administration

Payroll administration is one of the first functions most employers computerize or outsource, and for good reason. Administering the payroll system—keeping track of each employee's FLSA worker status, wage rate, dependents, benefits, overtime, tax status, and so on; computing each paycheck; and then directing the actual printing of checks or direct deposits is a time-consuming task, one complicated by the need to comply with many federal, state, and local wage, hour, and other laws.

Many employers do perform this function in-house, usually with a payroll processing software package. Intuit's *Basic Payroll* lets the employer "enter hours worked and get instant paycheck calculations, including earnings, payroll taxes, and deductions. Then print paychecks yourself. *Basic Payroll* calculates federal and state payroll taxes for you, so you can easily e-pay federal taxes and write a check for state taxes." [100] Kronos's *Workforce Payroll* automates the payroll process, and offers self-service features. For example (see **www.kronos.com/HR/Payroll-Software/Payroll-Software.aspx**), *Workforce Payroll* will "let your employees see pay stubs and earning histories, make changes to direct deposit and W-4 forms, print W-2s, and even check out how changes to their deductions will affect their paychecks."

On the other hand, many employers do outsource payroll administration to vendors such as ADP. These vendors offer a range of payroll processing options. For instance, smaller employers may opt to call in their payroll data to the vendor's specialists, while larger ones may have this data processed automatically online. In deciding which vendor to use, the employer should consider its goals and the potential economic benefits, as well as factors such as the vendor's reputation. SHRM recommends evaluating the initial list of prospective vendors based on the employer's goals for the relationship. Don't just consider the relative economic benefits of outsourcing the function (rather than doing it in-house), but also the desirability of integrating the employer's internal systems with the vendor's, streamlining tax compliance and filings, and increasing employee self-service. [101]

Contemporary Topics in Compensation

Learning Objective 11-5

Explain the difference between competency-based and traditional pay plans.

In this final section, we'll look at five important contemporary compensation topics: competency-based pay, broadbanding, comparable worth, board oversight of executive pay, and total rewards.

Many employers, such as General Mills, pay certain workers based on attained skill levels.

Mark Richard/PhotoEdit, Inc.

Competency-Based Pay

Some managers question whether job evaluations that slot jobs into narrow cubbyholes (“Machinist I,” “Machinist II,” and so on) might not actually be counterproductive. For example, high-performance work systems depend on flexible multiskilled job assignments and on teamwork, and there’s no place here for employees to say, “That’s not my job.”

Competency-based pay aims to avoid that problem.[102] With competency (generally skill or knowledge-based) pay, you pay the employee for the skills and knowledge he or she is capable of using rather than for the responsibilities or title of the job currently held. [103] Experts variously call this competence-, knowledge-, or skill-based pay. With competency-based pay, an employee in a class I job who could (but may not have to at the moment) do class II work gets paid as a class II worker, not a class I. *Competencies* are demonstrable personal characteristics such as knowledge, skills, and personal behaviors such as leadership. Why pay employees based on the skill levels they achieve, rather than based on the jobs they're assigned to? With more companies organizing around teams, you want to encourage employees to get and to use the skills required to rotate among jobs.

In practice, competency-based pay usually comes down to pay for knowledge, or skill based pay. [104] Most such pay programs generally contain five elements. The employer *defines* specific required skills and chooses a *method* for basing the person's pay on his or her skills. A *training* system lets employees acquire skills. There is a formal competency *testing* system. And, the work is *designed* so that employees can easily move among jobs of varying skill levels. As an example, review **Chapter 4**'s **Figure 4-11** on page **120**. For this job, BP lists the minimum level for each skill (such as Technical Expertise, and Problem Solving) someone holding this job must attain. As an employee achieves each level of each skill, he or she would receive a bump in pay. The accompanying JLG program feature shows another example.

IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

JLG's Skill-Based Pay Program

JLG industries supplies access equipment such as aerial work platforms and mast booms. [105] The firm instituted a skill-based pay program to reward employees for the number of basic skills they can perform rather than for the jobs to which they are assigned. [106] JLG integrated the skill pay program into its existing payroll system, and supported it with a computerized reporting system.

As an employee acquires and masters a new skill, JLG increases his or her pay on a scheduled basis. Pay increases are directly proportional to employee "value" based on skill acquisition. Pay adjustment increments are $0.30 per hour and can be in addition to regularly scheduled merit increases. Qualified employees are eligible to receive a skill-based wage adjustment at three times. The first increase is available at the completion of an initial 6-month probationary employment period. An additional skill-based adjustment may come in conjunction with the employee's annual merit review. Other skill-based adjustments are allowed yearly and 6 months after the annual merit review.

JLG assigns hourly production and maintenance workers to a particular "job family." A job family consists of a group of employees performing similar activities and requiring similar skills.

Each job family has a set of required skills, including certain job-related skills as well as skills related to quality and safety.

Skill assessment is ongoing. Formal evaluation begins at the end of the 6-month probationary period, at which time the employee is tested for mastery of *the minimum skills* required for the job family. (A 100% mastery of these minimum skills is required for successful completion of the probationary period.) Then, twice a year, the company analyzes the employee's progress toward more *advanced skills*, and sets training objectives. Overall responsibility for skills acquisition and career development rests with the employee. The employee determines his/her level of participation in acquiring new or additional skills. Supervisors assist by helping the employee identify and plan for new skills to be acquired, and by creating opportunities for cross-training and certifying the skills training.

To determine if an employee is qualified for a skill-based pay raise, a comparison is made between the employee's current wage rate and the skill-based target rate within the job family to which the employee is assigned. If the current wage rate is equal to or greater than the target rate, no pay adjustment is made. If the current rate is below the target rate, a skill-based adjustment is authorized for employees who mastered the job family's skills.

In place since the 1990s, JLG reports that the program is producing benefits. The skill mastery it fosters permits faster adaptation to technology and product mix changes. With a greater skill range, workers are better able to focus on problem areas and avoid idle time waiting for problems to be fixed, or for work done by others. Employees participate more actively in problem solving because of their wider perspective on total workflow. The program permits lower overall staffing levels by incorporating into job family skill requirements specialized tasks others might otherwise be hired to perform. The company has been able to raise minimum hiring qualifications. Overall increases in productivity have enabled expansion of capacity.

*Source: From "JLG Industries, Inc., "Information: Skill-Based Pay Program," **www.bmpcoe.org/bestpractices/internal/jlg/jlg_14.html**.*

If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete this discussion.

Talk About It 4:

Review our discussion of competencies in **Chapter 4**; then write three competency statements for one job you believe they would have at a company such as JLG. A useful competency statement includes three elements: the *name and a brief description* of the competency, a *description of the observable behaviors* that represent proficiency in the competency, and *proficiency levels*.

Broadbanding

Most firms end up with pay plans that slot jobs into classes or grades, each with its own vertical pay rate range. For example, the U.S. government's pay plan consists of 15 main grades (GS-1 to GS-15), each with its own pay range. For an employee whose job falls in one of these grades, the pay range for that grade dictates his or her minimum and maximum salary.

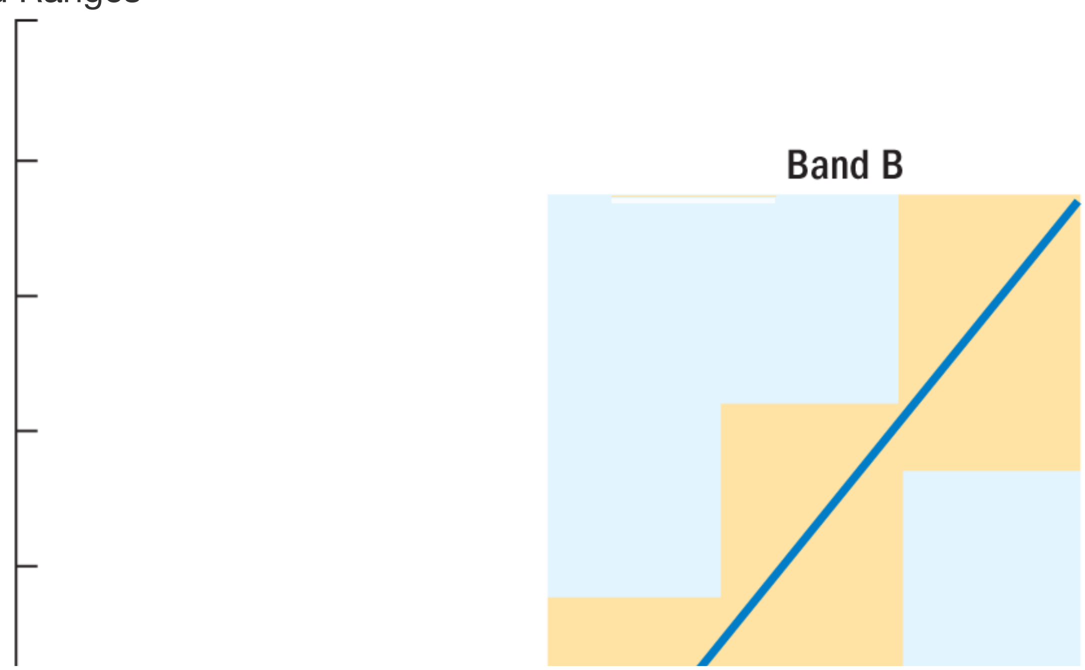
The question is, "How wide should the salary grades be, in terms of the number of job evaluation points they include?" (For example, should the U.S. government collapse its 15 salary grades into 5 or 6 broader bands.) There is a downside to having (say, 15) narrow grades. For instance, if you want someone whose job is in grade 2 to fill in for a time in a job that happens to be in grade 1, it's difficult to reassign that person without lowering his or her salary. Similarly, if you want the person to learn about a job that happens to be in grade 3, the employee might first want a corresponding raise to grade 3 pay. Traditional grade pay plans thus may tend to breed inflexibility.

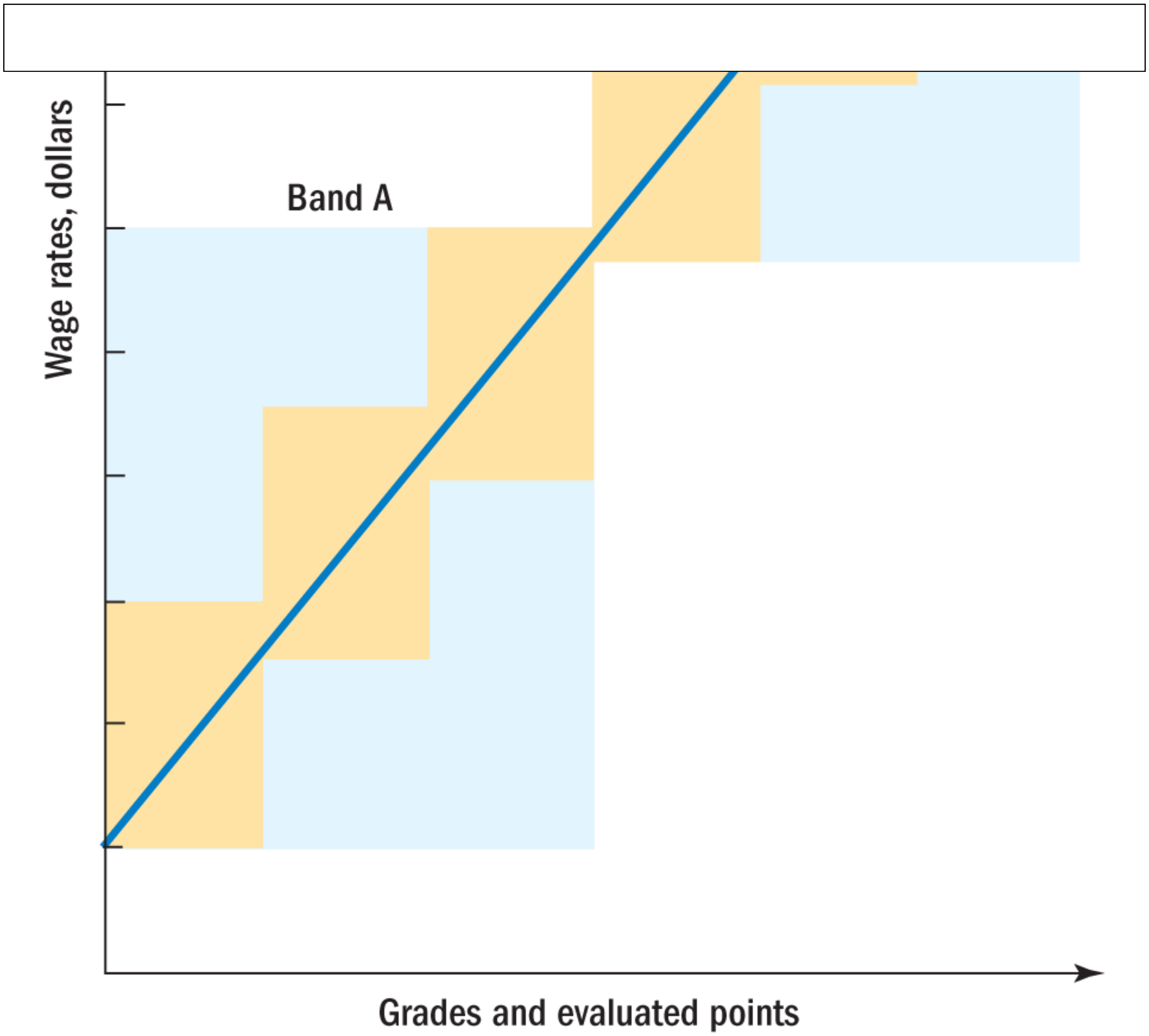
That is why some firms broadband their pay plans.[107] **Broadbanding** means collapsing salary grades into just a few wide levels or bands, each of which contains a relatively wide range of jobs and pay levels. **Figure 11-11** illustrates this. Here, the company's previous six pay grades are consolidated into two broad grades or "broadbands."

A company may create broadbands for all its jobs, or for specific groups such as managers or professionals. The (vertical) pay rate range of each broadband is relatively large, since it ranges from the minimum pay of the lowest grade the firm merged into the broadband up to the maximum pay of the highest merged grade. Thus, for example, instead of having 10 salary grades, each of which contains a salary range of $15,000, the firm might collapse the 10 grades into three broadbands, each with a set of jobs such that the difference between the lowest- and highest-paid jobs might be $40,000 or more. For the jobs that fall in this broadband, there is therefore a much wider range of pay rates. You can move an employee from job to job within the broadband more easily, without worrying about the employee's moving outside the relatively narrow rate range associated with a traditional narrow pay grade.

Figure 11-11

Broadbanded Structure and How It Relates to Traditional Pay Grades and Ranges





Broadbanding injects greater flexibility into employee pay. [108] For example, "the employee who needs to spend time in a lower-level job to develop a certain skill set can receive higher-than-usual pay for the work, a circumstance considered impossible under traditional pay systems." [109] Conversely, employees assigned to traditional narrowly defined pay grades may take a "that's not my job" attitude and focus on their usual assigned duties. [110]

Comparable Worth

Comparable worth refers to the requirement to pay men and women equal wages for jobs that are dissimilar but of comparable value (for instance measured in points) to the employer. This may mean comparing dissimilar jobs, such as nurses to truck mechanics. The question "comparable worth" seeks to address is this: Should you pay women who are performing jobs *equal* to men's or just *comparable* to men's the same as men?

County of Washington v. Gunther (1981) was a pivotal case. It involved Washington County, Oregon, prison matrons who claimed sex discrimination. The county had evaluated roughly comparable (but different) men's jobs as having 5% more "job content" (based on a point evaluation system) than the women's jobs, but paid the men 35% more.[111] Why should there be such a pay discrepancy for roughly comparable jobs? After moving through the courts to the U.S. Supreme Court, Washington County finally agreed to pay 35,000 employees in female-dominated jobs almost $500 million in pay raises over 7 years to settle.

Comparable worth has implications for job evaluation. Virtually every comparable worth case that reached court involved the point method of job evaluation. By assigning points to dissimilar jobs, point plans facilitate comparability ratings among different jobs. Should employers still use point plans? Perhaps the wisest approach is for employers to price their jobs as they see fit (with or without point plans), but to also ensure that women have equal access to all jobs. In other words, eliminate sex-segregated jobs.

Diveristy Counts: The Pay Gap

All this notwithstanding, women in the United States earn only about 81% as much as men. [112] In general, education may reduce the wage gap somewhat. [113] But gaps remain, even among the most highly trained. For example, new female medical doctors recently earned about $17,000 per year less than their male counterparts did. [114] Reasons put forward for the male-female gap range from the outdated notion that employers view women as having less leverage, to the fact that professional men change jobs more often (gaining more raises in the process) and that women tend to end up in departments that pay less. [115] In any case, it's a problem employers should recognize and address.

Watch It!

How do companies actually adjust salaries and raises? If your professor has assigned this, go to the Assignments section of **mymanagementlab.com** to complete the video exercise titled *Compensation (Focus Pointe).*

Board Oversight of Executive Pay

There are various reasons why boards are scrutinizing their executives' pay more than in the past. The Dodd-Frank Law of 2010 requires that American companies give shareholders a "say on pay." Law firms are filing class-action suits demanding information from companies about their senior executive pay decisions. [116] The Financial Accounting Standards Board requires that most public companies recognize as an expense the fair value of the stock options they grant. [117] The Sarbanes-Oxley Act makes executives personally liable, under certain conditions, for corporate financial oversight lapses. The chief justice of Delaware's Supreme Court said that governance issues, shareholder activism, and other changes have "created a new set of expectations for directors." [118] The Securities and Exchange Commission (SEC) requires filing detailed compensation-related information, including a listing of all individual "perks" or benefits if they total more than $100,000. [119]

The net result is that lawyers specializing in executive pay suggest that boards of directors (whose compensation committees usually make these pay decisions in large firms) ask themselves these questions: [120]

- Has our compensation committee identified its duties and processes?
- Is our compensation committee using the appropriate compensation advisors?
- Are there particular executive compensation issues that our committee should address? [121]
- Do our procedures demonstrate diligence and independence (including careful deliberations and records)?

- Is our committee appropriately communicating its decisions? How will shareholders react? [122]

Employee Engagement Guide For Managers

Learning Objective 11-6

Describe the importance of total rewards for improving employee engagement.

Total Rewards Programs

Total rewards is an important concept in compensation management. People bring to their jobs many needs—for challenging work and for respect and appreciation, for instance—not all of which are satisfied by pay or bonuses. "'Total rewards' encompass not only compensation and benefits but also personal and professional growth opportunities and a motivating work environment." [123] It includes not just traditional financial rewards (wages and incentives plus benefits and perks), but also nonfinancial and intangible rewards such as recognition, the nature of the job/quality of work, career development opportunities, [124] good relationships with managers and colleagues, organizational justice, trust in employees, feeling of being valued and involved, opportunities for promotion, [125] and a great work climate. [126] Total rewards also include recognition programs and redesigned jobs (discussed in **Chapter 4**), telecommuting programs, health and well-being programs, and training and career development.

Trends Shaping HR: Digital and Social Media

Noncash recognition/appreciation rewards such as gift cards, merchandise, and recognition are important parts of such total compensation. [127]

New digital and social media tools enable employees to recognize and reward each other. For example, a West Virginia DuPont plant installed an online system that enabled employees to give each other recognition; 95% were soon using it. [128] International Fitness Holdings lets employees use a Facebook-type application to recognize peers by posting messages and sending private e-mails. [129] Employers contract with sites like **Globoforce.com** to provide online recognition systems.

Total Rewards and Employee Engagement

When it comes to employee engagement, both material and non-material rewards—total rewards—seem essential. [130] For example, one study found that base pay and benefits alone were weakly related to engagement. [131] However, intangible rewards (such as the nature of the job/quality of work and career development opportunities) had high or very high impacts on engagement and performance, when combined with base salary and short-term incentives or bonuses. [132]

It's therefore not surprising that many high-engagement employers do emphasize total rewards. For example, the values laid out in Toyota's famous "The Toyota Way" include mutual trust and respect, stable employment, helping employees to develop their technical skills, and "support for production staff combining work with childcare, career design support, and raising of corporate awareness." Disney emphasizes providing employees/cast members with a total rewards package that includes pay plus various benefits and career development opportunities. [133] Similarly, many "Best Companies to Work For" emphasize intangible rewards. For example, one top executive at NetApp takes an opportunity to call and thank several employees each day for their efforts, and Whole Foods emphasizes employee involvement, for instance letting employees vote on new hires and see what all Whole Foods employees earn. [134] At SAS there is stimulating work, an empowering management philosophy, flexible work, and an emphasis on being happy at work. [135]

In addition to encouraging such rewards, the employer should issue total reward statements periodically. List all the rewards—financial and nonfinancial—the company offers, and note their importance to the employees' overall well-being. [136] Doing so increases their impact.