



# Total Rewards

Establishing Strategic Pay Plans

# Introduction

**FIGURE 9.1**

Total Rewards in Exchange for Work



e.g.,

- Base pay
- Incentive plans
- Stock ownership plans
- Time off
- Health benefits
- Wellness initiatives
- Employee assistance plan
- Employee discounts
- Pension plans

SOURCE: Adapted from George T. Milkovich and Jerry M. Newman, *Compensation*, 6th edition, Irwin McGraw-Hill, ISBN 0-256-26906-8, p. 7. Reprinted with permission from The McGraw-Hill Companies, Inc.

# Five Components of Total Rewards

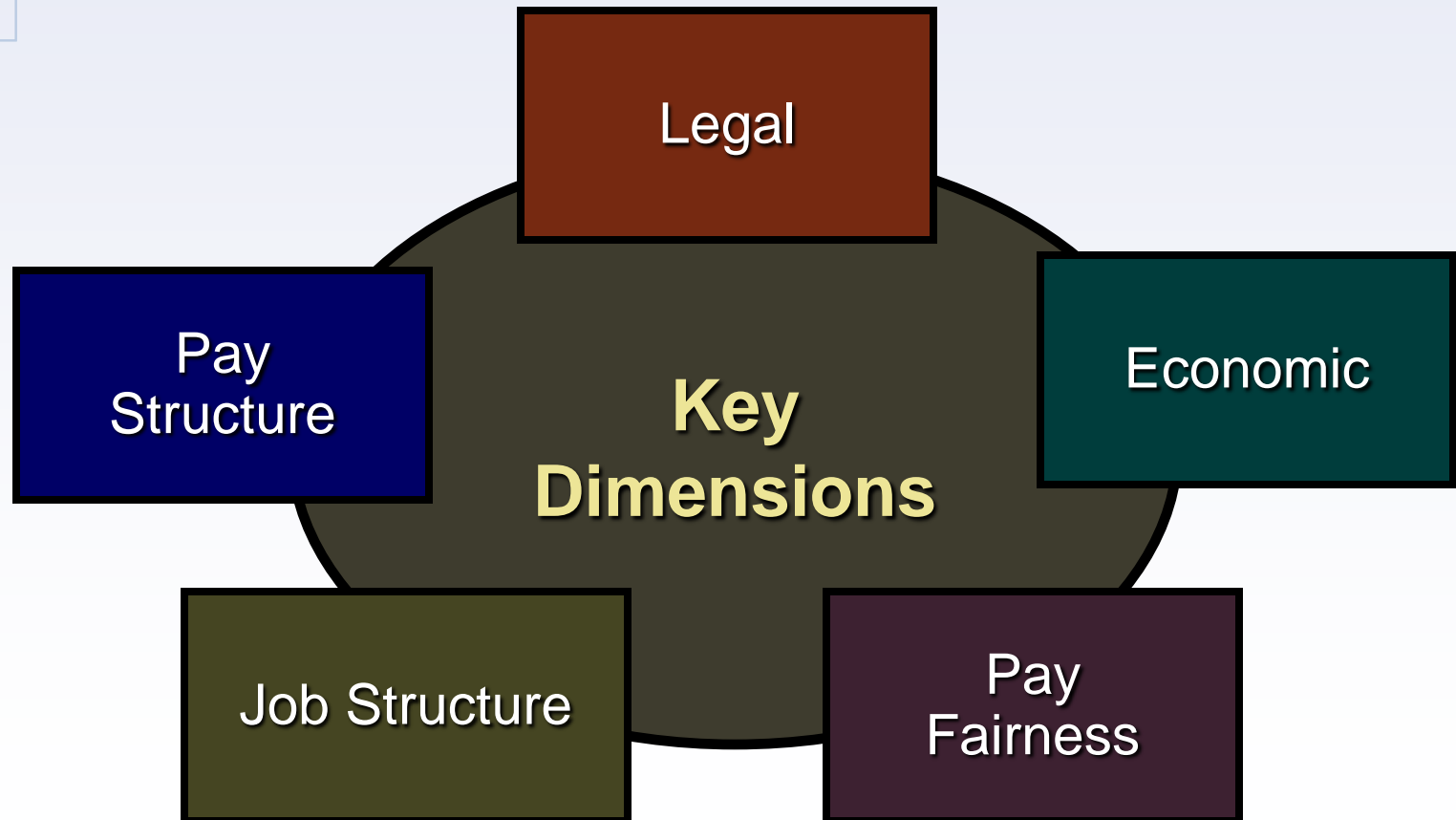
1. Direct compensation
2. Indirect compensation (benefits)
3. work-life programs
4. performance and recognition
5. development and career opportunities

# Designing a Compensation System

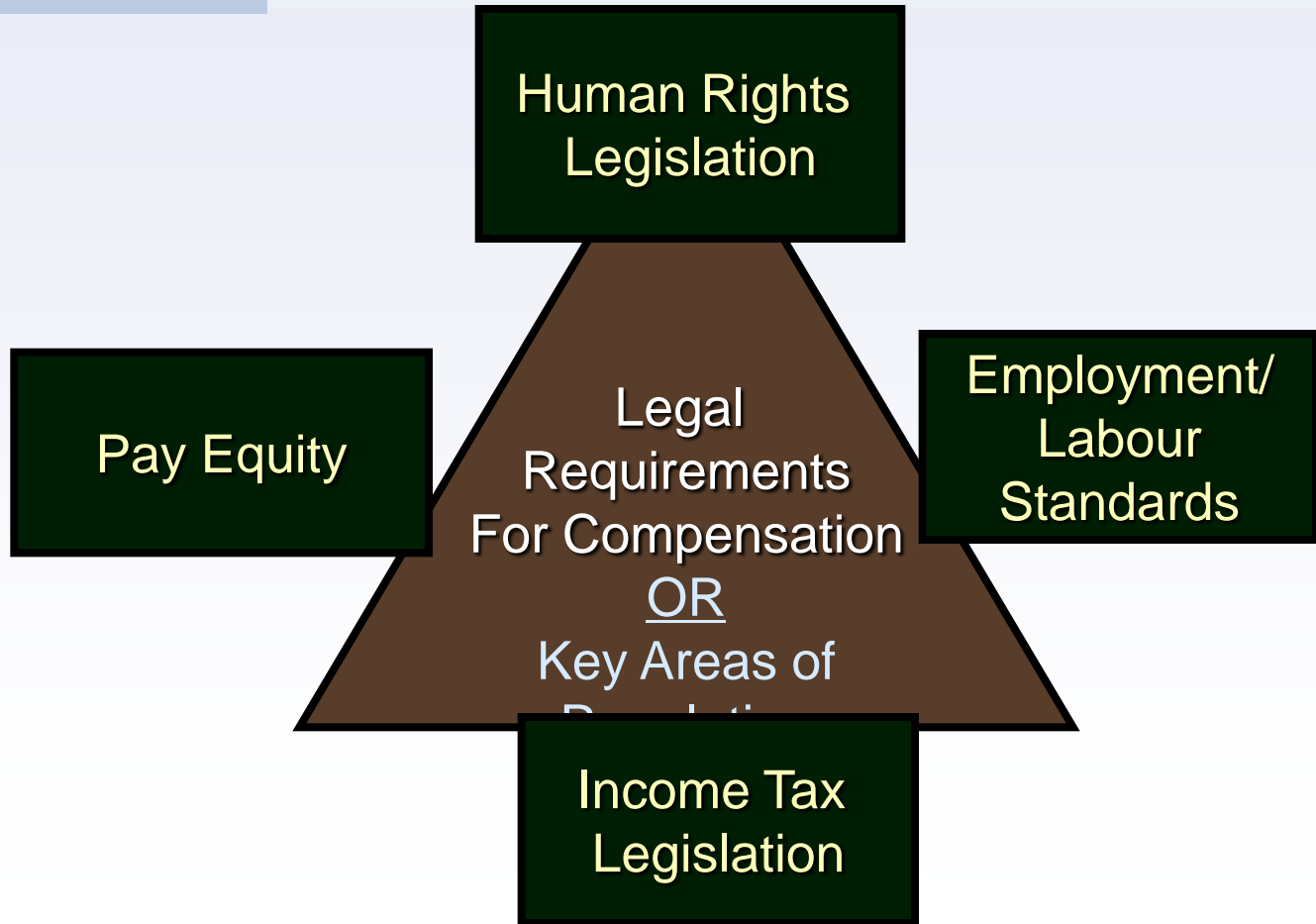
## HR Choices for Developing a Plan

- 
1. Internal Vs. External Equity
  2. Fixed Vs. Variable Pay
  3. Performance Vs. Membership
  4. Job Vs. Individual Pay
  5. Egalitarianism Vs. Elitism
  6. Below-Market Vs. Above- Market Compensation
  7. Monetary Vs. Non-monetary Rewards
  8. Open Vs. Secret Pay
  9. Centralization Vs. Decentralization of Pay Decisions

# Influences & Decisions on Base Pay



# Legal Requirements



# Establishing Pay Rates

- **Step 1.** conduct job evaluation – for internal equity
- **Step 2.** group similar jobs into pay grades
- **Step 3.** conduct salary survey – for external equity
- **Step 4.** price each pay grade using wage curves
- **Step 5.** fine-tune pay rates

# Step 1: Job Evaluation – for internal equity

## **Job Evaluation**

- systematic comparison of jobs to determine their relative worth

## **Benchmark Job**

- job commonly found in organizations
- critical to firm's operations

## **Compensable Factor**

- fundamental compensable aspect of a job
- e.g. skill, effort, responsibility, working conditions

## **Step 2: group similar jobs into pay grades**

- Develop Grades
- Establishing Midpoint, Minimum, and Maximum

## **Step 3. Conduct a Wage/Salary Survey**

- formal or informal

## **Step 4. Price Each Pay Grade – Wage Curves**

- find average pay for each pay grade
- price jobs

# Step 5. Fine-Tune Pay Rates

- Broadbanding
- Competency-Based Pay
- Pay Equity

# Communicating Total Rewards

- Comprehensive communication strategy
- Management & Employee involvement
- Combine several media



# **Pay-for-Performance and Financial Incentives**

# Common Tools to design Total Rewards

- Job-Based Approach
- Skill/Competency-Based Approach

# Cont...

## 1. Job-Based Approach

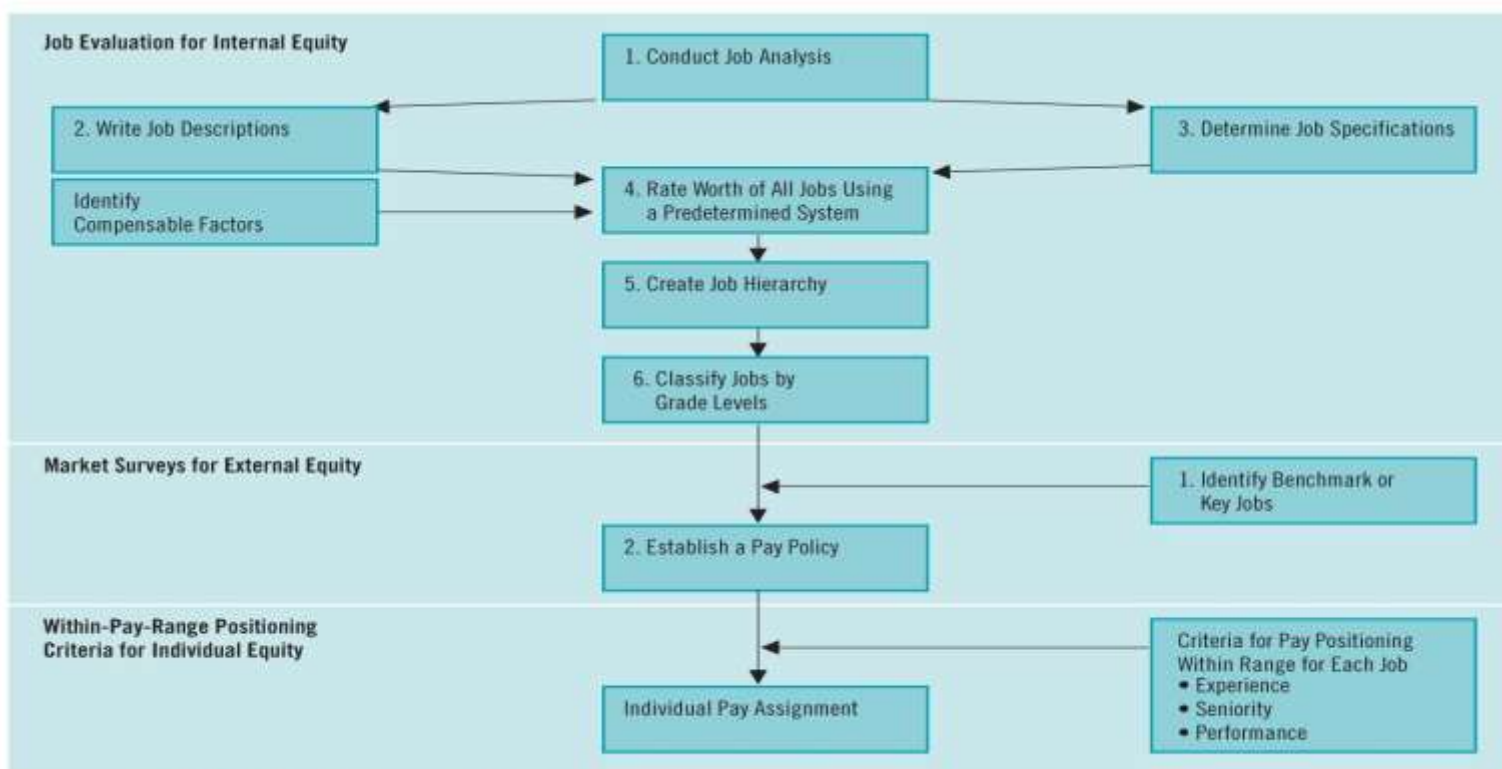


Figure 10-6 The Key Steps in Creating Job-Based Compensation Plans

# Cont...

## *2. Skill-Based Compensation Approach*

- Depth skills
- Horizontal/breadth skills

# Cont...

## *Suggestions for practice*

- Think strategically in policy-making
- Secure employee input and provide necessary resources
- Increase job's pay range but with responsibility scope
- Conduct periodic pay-equity audits
- Establish dual career ladders

# Types of Pay-for-Performance Plans

<i>Micro-level</i>		<i>Macro-level</i>	
<i>Individual</i>	<i>Team</i>	<i>Division</i>	<i>Organization</i>
Merit Pay	Bonuses	Gainsharing	Profit Sharing
Bonuses	Awards	Bonuses	Stock Plans
Awards		Awards	Scanlon plans
Piece rate			

# Gainsharing Plans: Success Factors

Cooperation between management and labour

Joint development of the plan

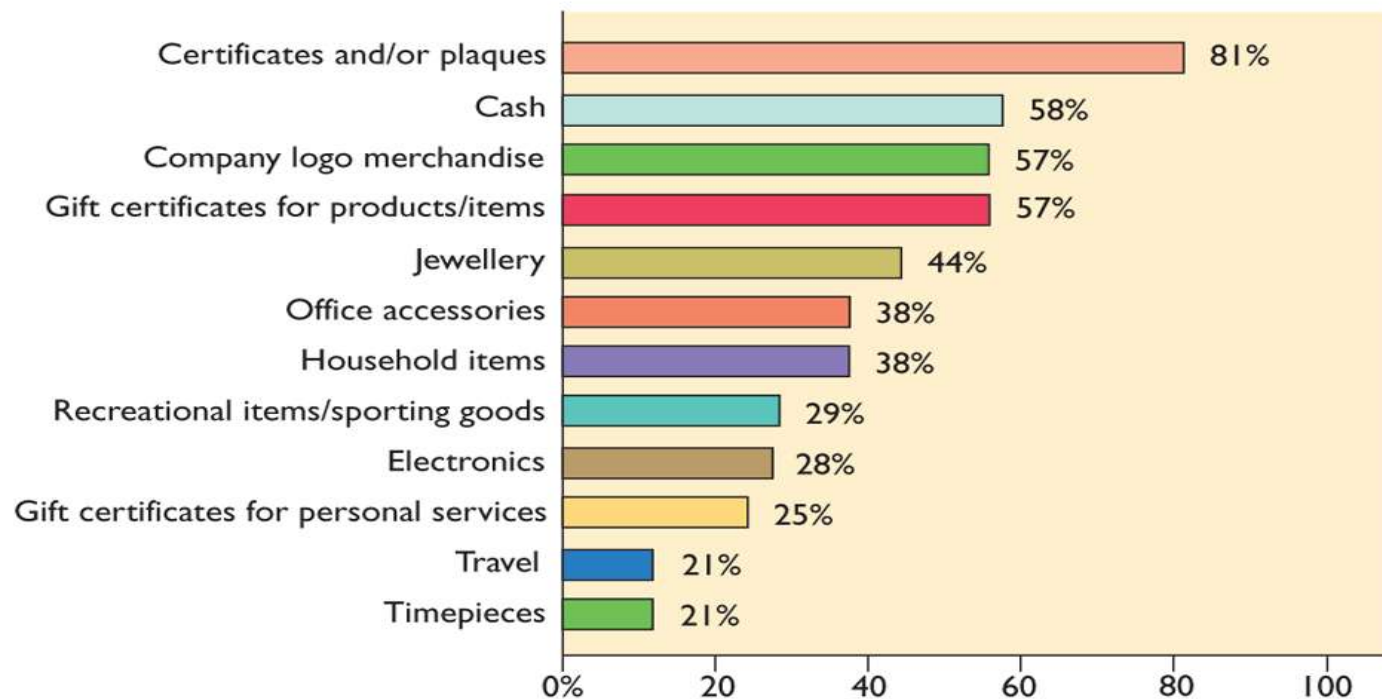
Effective communication

Clear guidelines regarding plan changes

Setting achievable goals

## FIGURE 12.4 Common Recognition Awards

Certificates and plaques continue to be the most common form of recognition to employees, according to a survey of 614 North American organizations by WorldatWork and the National Association for Employee Recognition in 2005. Nearly nine out of every ten organizations (89 percent) offer some form of recognition to staff. Below is a list of various items and the percentage of respondents that offer them.



Source: WorldatWork's Trends in Employee Recognition 2005. Reprinted with permission of WorldatWork, Scottsdale, AZ. [www.worldatwork.org](http://www.worldatwork.org).

# Cont...

## *Problems with Incentive Pay*

- ⊕ Neglecting tasks
- ⊕ Conflict and competition
- ⊕ Lack of control
- ⊕ Measuring performance
- ⊕ “Do only what you get paid for”  
Syndrome
- ⊕ Psychological contracts
- ⊕ Credibility gaps
- ⊕ Dissatisfaction and Stress
- ⊕ Intrinsic drives
- ⊕ Rumors and sabotage

# Principles for Effective Implementation of Incentives

- Pay for performance
- Link incentives to career development and challenging opportunities
- Link incentives to measurable competencies
- Match incentives to the culture of the organization
- Keep group incentives clear and simple
- Over-communicate
- Remember greatest incentive is the work itself
- Employee Recognition Programs (**Benefits**)

