

Slide 1

Chapter Eleven: Strategic Pay Plans

Slide 2

Strategic Importance of Total Rewards

Total Rewards

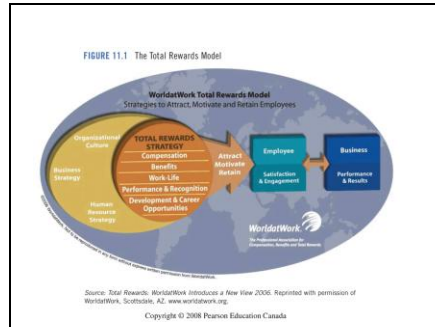
- an integrated package of all rewards (monetary and non-monetary, extrinsic and intrinsic) gained by employees arising from their employment
- aligned with business strategy
- provide employee value within cost constraints

Slide 3

Five Components of Total Rewards

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

Slide 4



Slide 5

Basic Considerations in Determining Pay Rates

- **Legal-Employment/Labour Standards**
 - Pay Equity
 - Human Rights
 - Canada/Quebec Pension Plan
 - Workers' Compensation
 - Employment Insurance
- **Union** - collective bargaining
- **Compensation policies** - leader or follower in pay
- **Equity** - internal and external

Slide 6

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

Slide 7

Step 1. Job Evaluation

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

Slide 8

Job Evaluation Methods

- Ranking method
- Classification/grading method
- Factor comparison method
- Point method

Slide 9

Ranking Method

1. obtain job information
2. group jobs to be rated
3. select compensable factors
4. rank jobs
5. combine ratings

Slide 10

Ranking Method Example	
• Ranking Order	Annual Pay
• Office manager	\$60,000
• Chief nurse	54,000
• Bookkeeper	50,000
• Nurse	40,000
• Cook	26,000
• Nurse's aid	24,000
• Maid	20,000

Slide 11

Classification/Grading Method
<ul style="list-style-type: none">• categorize jobs into groups (classes or grades)• classes contain similar jobs• grades contain dissimilar jobs of equal difficulty

Slide 12

Point Method Overview
<ul style="list-style-type: none">• identify compensable factors• determine the degree to which each factor is present in each job

Slide 13

Point Method Steps

1. determine clusters of jobs to be evaluated
2. collect job information
3. select and define compensable factors
4. define factor degrees
5. determine factor weights
6. assign point values to factors and degrees
7. write the job evaluation manual
8. rate the jobs

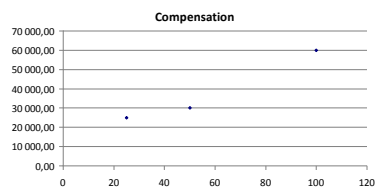
Slide 14

Point Method – Factor Degrees

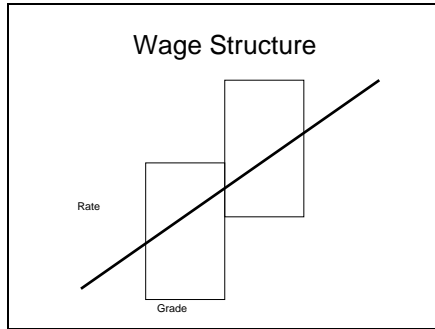
Factor	First-degree points	Second-degree points	Third-degree points	Fourth-degree points	Fifth-degree points
Decision Making	40	80	120	160	200
Problem Solving	35	70	105	140	175
Knowledge	25	50	75	100	125

Slide 15

Survey and Analysis



Slide 16



Slide 17

**Step 2. Group Similar Jobs
Into Pay Grades**

Pay Grade

- jobs of approximately equal value, e.g.:
 - point: jobs falling within a range of points
 - ranking: all jobs falling within 2-3 ranks
 - classification: jobs already in classes/grades
- factor comparison: specified range of pay rates

Slide 18

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

- formal or informal survey by employer
- commercial, professional, and government salary surveys

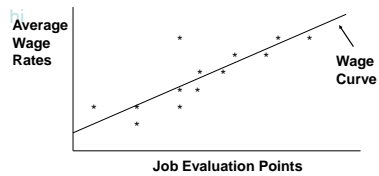
Slide 19

Step 4. Price Each Pay Grade – Wage Curves

- find average pay for each pay grade
- plot pay rates for each pay grade
- fit a wage line through points (regression)
- price jobs

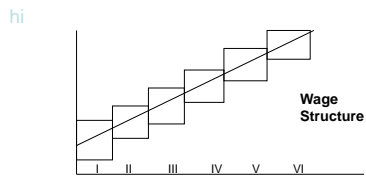
Slide 20

Wage Curve Example

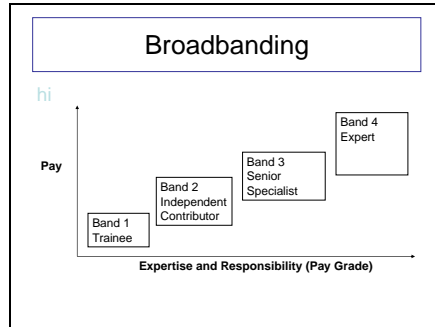


Slide 21

Step 5. Fine-Tune Pay Rates



Slide 22



Slide 23

Competency-Based Pay

Competencies

- individual knowledge, skills and behaviours that are critical to successful individual or corporate performance
- pay for range, depth and types of knowledge that employees are capable of using, rather than current job duties

Slide 24

Pay for Managerial and Professional Jobs

• Salary (market pricing)	→	*reduced emphasis
• Benefits		
• Short-term incentives		*increased emphasis
• Long-term incentives	→	
• Perquisites		

Slide 25

Pay Equity

- **Wage gap:** average pay for males is 30% higher than average pay for females
- pay equity intended to eliminate systemic pay discrimination by providing equal pay to:
 - male-dominated job classes
 - female-dominated job classesof equal value
- must ensure no gender bias in job evaluation

Slide 26

Pay Equity Results

- pay equity has narrowed the wage gap, but not eliminated it
- no explanation other than systemic discrimination for much of 30% remaining gap
- long-term solution is women and men equally represented in all jobs, i.e. no male or female-dominated jobs (occupational segregation)

Slide 27

TABLE 11.1 Job Ranking by Olympia Health Care

Ranking Order	Annual Pay Scale
1. Director of operations	\$60 000
2. Head nurse	54 000
3. Accountant	50 000
4. Nurse	40 000
5. Cook	26 000
6. Nurse's aide	24 000
7. Cleaner	20 000

After ranking, it becomes possible to slot additional jobs between those already ranked and to assign an appropriate wage rate.

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Slide 28

FIGURE 11.1 Example of Group Definition in the Federal Government

Correctional Services (CA) Group Definition

The Correctional Services Group comprises positions that are primarily involved in the custody, control and correctional influence of persons in the institutions of Correctional Service Canada and the training of staff engaged in custody and correctional work at a Staff College of Correctional Service Canada.

Inclusions

Notwithstanding the generality of the foregoing, for greater certainty, it includes positions that have as their primary purpose, responsibility for one or more of the following activities:

1. the custody and control of inmates and the security of the institutions;
2. the correctional influence of inmates with the confining responsibility to reduce recidivism and efficiency to inmates;
3. the admission and discharge of inmates, and the control of inmate-risk and contingencies;
4. the organization and implementation of recreational activities, the surveillance and control of inmates engaged in these activities and the custody and care of recreational equipment;
5. the membership of any of the above activities.

Exclusions

Positions excluded from the Correctional Services Group are those whose primary purpose is included in the definition of any other group or those in which one or more of the following activities is of primary importance:

1. the operation of training plant, design facilities and water supplies and the provision of maintenance services;
2. the provision of patient care that requires the application of a comprehensive knowledge of or specialized expertise in physical and mental health care;
3. the provision of services and supplies to inmates; and
4. the instruction of inmates in workshops, crafts and training programs.

Source: Correctional Services (CS) Classification Standard, working draft, an Institutional Management System Application, 1998. Reproduced courtesy of Public Service Human Resources Management Agency of Canada, and with permission of the Minister of Public Works and Government Services Canada, 2003. Copyright © 2008 Pearson Education Canada.

Slide 29

FIGURE 11.3 Sample Definitions of Three Factors Used in Factor Comparison Method

1. Mental Requirements

Offer the provision of and/or the active application of the following:

- A. General mental traits, such as intelligence, memory, reasoning, ability to verbalize, expression, ability to get along with people, and imagination.
- B. Integrated general education, such as grammar and arithmetic, or general information as to sports, world events, etc.
- C. Integrated specialized knowledge such as chemistry, engineering, accounting, advertising, etc.

2. Skill

- A. Integrated facility in muscular coordination, as in operating machines, repetitive movements, careful coordination, dexterity, assembling, setting, etc.
- B. Integrated specific job knowledge necessary to the muscular coordination being acquired by performance of the work and not to be confused with general education or specialized knowledge. It is very largely training in the interpretation of sensory impressions.

Sample:

1. In operating an adding machine, the knowledge of what key to depress for a certain result to be obtained.
2. In automobile repair, the ability to determine the significance of a certain knock in the motor would be skill.
3. In handling a blade, the ability to determine from the appearance of the beveled free end should be shaved over the surface would be skill.

3. Physical Requirements

- A. Physical effort, such as sitting, standing, walking, climbing, pushing, lifting, etc.; both the amount exerted and the degree of the continuity should be taken into account.
- B. Physical status, such as age, height, weight, sex, strength, and stamina.

Source: See 1. This and Robert H. Cooke, Job Evaluation: A Guide for Small-Scale Administration, p. 185. © 1994, Revised 1995. Reproduced by permission of Pearson Inc. (Upper Saddle River, NJ). Copyright © 2008 Pearson Education Canada.

Slide 30

TABLE 11.2 Evaluation Points Assigned to Factors and Degrees

Factor	First-Degree Points	Second-Degree Points	Third-Degree Points	Fourth-Degree Points	Fifth-Degree Points
Skill	30	60	90	120	150
Effort	30	60	90	120	150
Responsibility	30	60	90	120	150
Working conditions	10	20	30	40	50

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Slide 31

TABLE 11.3 Factor Comparison Scale

\$	Mental Requirements	Physical Requirements	Skill Requirements	Responsibility	Working Conditions
10					Highly Skilled
20					Skilled
30					Core Operator
40					
50					
60					
70					
80					
90					
100		Core Operator			None
110			Security Guard		None
120					
130					
140					
150					
160					
170					
180					
190					
200					
210					
220					
230					
240					
250					
260					
270					
280					
290					
300	Writer	None	Writer	Writer	
310					
320					
330					
340					
350					
360					
370					
380					
390					
400	None		None	None	
410					
420					
430					
440					
450					

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Slide 32

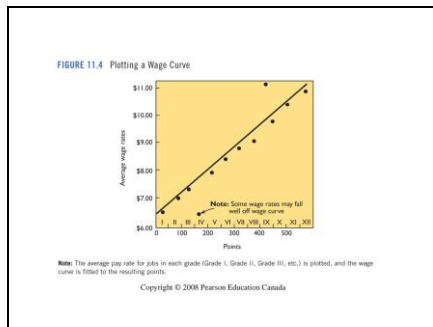
TABLE 11.4 Average Weekly Earnings by Industry 2001–2005

	2001	2002	2003	2004	2005
All industries excluding unclassified enterprises	\$ 607.27	\$ 680.83	\$ 690.37	\$ 706.03	\$ 728.17
Forestry, logging, and support	830.84	852.47	867.64	887.54	925.75
Mining and oil and gas extraction	1153.12	1168.01	1182.06	1248.93	1309.65
Utilities	1038.83	1056.31	1066.89	1061.39	1065.65
Construction	805.80	806.03	826.40	845.18	878.43
Manufacturing	808.10	830.30	842.67	859.57	884.76
Wholesale trade	774.87	779.70	790.79	803.13	829.78
Retail trade	631.06	634.18	644.13	653.94	670.52
Transportation and warehousing	741.69	764.37	761.92	756.87	775.78
Information and cultural industries	796.88	821.09	819.39	832.30	861.42
Finance and insurance	852.32	852.78	879.96	904.13	935.19
Real estate and rental and leasing	611.35	610.58	604.37	625.15	648.60
Professional, scientific, and technical services	886.09	899.14	914.05	929.94	952.96
Management of companies and enterprises	839.66	846.25	859.07	863.11	907.21
Administrative and support, waste management and remediation services	532.94	537.21	542.07	560.69	578.74
Educational services	694.06	724.24	745.68	776.65	805.57
Health care and social assistance	581.34	605.07	612.86	637.47	655.40
Arts, entertainment, and recreation	428.51	435.18	419.79	416.16	421.10
Accommodation and food services	286.00	292.02	279.47	294.14	311.60
Public administration	791.95	833.44	858.10	873.47	900.00
Other services	521.44	530.05	526.48	545.54	564.50

Source: Adapted from Statistics Canada CANSIM database <http://www59.statcan.ca/t2006002/tables/281-0027> and Statistics Canada publication Catalogue No. 72-002, last modified May 28, 2006.

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Slide 33



Slide 34

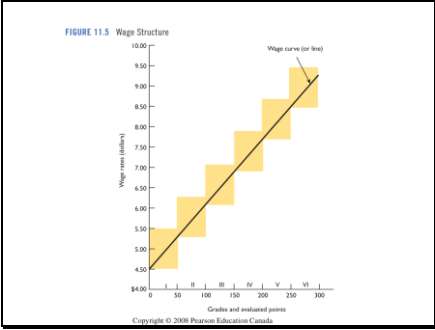
TABLE 11.5 Federal Government Pay Schedules CX-1 and CX-2*

Rate Levels within Grade					
Grade	1	2	3	4	5
CX-1	\$50 562	53 596	56 812	60 220	63 834
CX-2	\$53 658	56 878	60 290	63 907	67 740

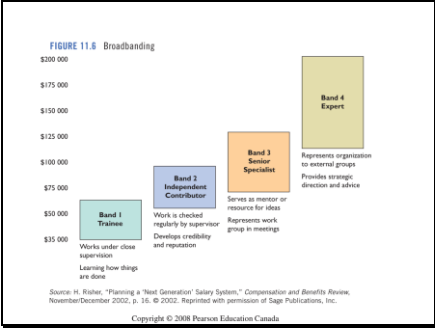
Source: Treasury Board of Canada Secretariat, *Agreement between the Treasury Board and the Union of Canada Correctional Officers*, Appendix A, 2001. www.tbs-tsc.gc.ca/pubs_polit/polpubs/cocil_agreement08_e.asp. Reproduced with the permission of the Minister of Public Works and Government Services, 2007.

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Slide 35



Slide 36



Slide 37

TABLE 11.6 Male/Female Average Earnings Ratio* for Full-Year, Full-Time Workers

Year	Women (\$)	Men (\$)	Earnings Ratio (%)
1995	35 500	49 100	72.4
1996	34 900	48 300	72.3
1997	34 600	50 700	68.3
1998	37 100	51 700	71.9
1999	35 700	52 200	68.4
2000	36 900	52 200	70.6
2001	37 200	53 300	69.9
2002	37 500	53 400	70.2
2003	37 300	53 200	70.2
2004	38 400	54 900	69.9

*Earnings stated in constant year 2004 dollars.

Source: Adapted from Statistics Canada CANSIM Database www.cansim2.stat.ca Table 202-0102.

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