


**SIRM** Creating a Pay Structure



**Establish pay grades.**

- Group jobs that have approximately the same worth in organization.
- Pay the same rate or within the same pay range.

**Set pay ranges.**

- Set upper/lower bounds of possible compensation for individuals whose jobs fall in a pay grade.
- Market data from surveys used to determine a midpoint.

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**SIRM** Compa-Ratios



- Divide the pay rate of an employee by the midpoint of the range.
  - Given a range of \$16 to \$20 an hour, a midpoint of \$18, and a salary of \$16 an hour, the compa-ratio is:
 

$\$16 \div \$18 = .89 \text{ or } 89\%$
- Compa-ratios below 1.00 mean wages are below the midpoint; compa-ratios greater than 1.00 mean wages exceed the midpoint.

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**SIRM** Broadbanding



**Combines salary grades to create larger ranges**

- Allows people to move within their job without outgrowing the pay scale.
- Avoids having too many grades with small midpoint differences between them.

**Management**

\$50,000 ↔ \$105,000

**Technical**      **Supervisory**

\$22,000 ←————→ \$68,000

**Service Experts**

\$17,000 ↔ \$38,000

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**SIRM** Pay Variations

- Red-circle rates**: Rates above the range maximum
- Green-circle rates**: Rates below the range minimum
- Pay compression**: Small differences in pay regardless of experience, skills, level, or seniority

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**SIRM** Broadbanding Advantages and Disadvantages

| Advantages   | Disadvantages  |
|--|--|
| <ul style="list-style-type: none"><li>Provides wider ranges</li><li>Reduces the number of job grades</li><li>Supports de-layering</li><li>Provides more autonomy to line managers</li><li>Enhances employee mobility</li></ul> | <ul style="list-style-type: none"><li>Reduces the value of ranges</li><li>Affords less control</li><li>Creates overly broad ranges</li><li>Difficult to maintain perception of equity</li><li>Reduces the opportunity for promotion</li><li>Can lead to divergence from the market</li></ul> |

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**SIRM** Wage and Hour Law Compliance

Considerations include:

- Minimum wage and increases
- Overtime and holiday pay
- Equal pay
- Exemption
- Cap on hours worked
- Special issues under local law
- Taxation

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**SIRM** **Base-Pay Systems**



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|-----------------------------|--|
| <b>Single- or flat-rate</b> | <ul style="list-style-type: none"> <li>Employees receive the same rate of pay, regardless of performance or seniority.</li> <li>Generally corresponds to target market survey data for the job.</li> <li>May be a training wage in a flat-rate job.</li> </ul>   |
| <b>Time-based step-rate</b> | <ul style="list-style-type: none"> <li>Rate based on longevity.</li> <li>Increases occur on pre-determined schedule:               <ul style="list-style-type: none"> <li>Automatic by percentage and time.</li> <li>Affected by performance.</li> <li>Combination of step-rate and performance (when job rate is reached).</li> </ul> </li> </ul> |

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**SIRM** **Base-Pay Systems**



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| <b>Performance-based or merit pay (P4P or PFP)</b> | <ul style="list-style-type: none"> <li>Linked to measures of work quality or goals.</li> <li>Employers must be able to defend practices.</li> <li>Global differences must be addressed:               <ul style="list-style-type: none"> <li>Types of incentives and remuneration.</li> <li>Individual vs. collective performance.</li> <li>Impact on risk.</li> </ul> </li> </ul> |
| <b>Productivity-based</b>                          | <ul style="list-style-type: none"> <li>Based on output.</li> <li>Straight piece-rate (base plus).</li> <li>Differential piece-rate (rate increases in steps after standard is met).</li> </ul>   |
| <b>Person-based</b>                                | <ul style="list-style-type: none"> <li>Affected by employee's knowledge, skill, or competencies.</li> </ul>  |

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**SIRM** **Pay Adjustments**



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|------------------------------|-------------------------------|
| <b>Pay adjustment matrix</b> | <b>COLAs</b>                  |
| <b>General pay increases</b> | <b>Seniority increases</b>    |
| <b>Lump-sum increases</b>    | <b>Market-based increases</b> |

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**SIRM** Differential Pay

**Time-Based**

- Based on when an employee works
- Examples:
  - Shift pay
  - Emergency-shift pay
  - Premium pay
  - On-call or call-back pay
  - Reporting pay
  - Travel pay
  - Overtime pay

**Geographic**

Differentials:

- For labor costs
- To attract workers to certain locations
- For foreign countries

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**SIRM** Incentive Pay

- Motivates employees to perform at higher levels
- Pays for performance beyond base-pay expectations
- Must be related to aspects of the job that an employee can influence with achievable goals
- Can be structured to reward short-term accomplishments or long-term results or a balance of both short- and long-term goals

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**SIRM** Types of Incentives

| Individual  | Group  | Organization-wide  |
|---|--|--|
| Purpose is to improve individual performance<br><i>Examples:</i> piece rate, commissions, noncash reward programs | Used when measuring individual performance is difficult or when performance requires cooperation<br><i>Examples:</i> gainsharing plans, team bonuses | Reward overall results<br><i>Examples:</i> profit sharing, stock ownership, bonus programs |

Challenges for global organizations include designing and awarding culturally appropriate incentives and regulatory compliance.

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**SIRM** **Types of Executive Compensation**

- Annual salary
- Stock option plans
- Stock purchase plans
- Restricted stock grants
- Phantom stock
- Restricted stock units
- Performance grants

HR's role in executive remuneration varies and may include:

- Consulting on strategy.
- Participating in selecting outside experts.
- Monitoring and evaluating compensation systems.

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**SIRM** **Direct Sales Compensation**

←—————→

| Straight salary  | Salary plus commission and/or bonus   | Straight commission  |
|--|---|--|
| <p><b>Use when:</b></p> <p>More time is spent on service than sales.<br/>Measuring sales performance is difficult.<br/>Individual sales and support efforts are hard to separate.<br/>Sales cycle is long.</p> | <p><b>Use when:</b></p> <p>Organization needs to reward behaviors that support strategy.<br/>System needs to be adaptable and allow for readjustments.<br/>Competitors use the same strategy.</p> | <p><b>Use when:</b></p> <p>Organizational objective is to increase volume (even if it means less service).<br/>Holding down cost of sales is important.<br/>Competitors use the same strategy.</p> |

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**SIRM** **Compensation for Outside Directors**

- Base pay or retainer
- Fees paid for various events or services
- Benefits (for example, liability and life insurance)
- Perquisites
- Nonqualified stock options/grant plans
- Nonqualified deferred compensation programs

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**SIRM** **Choosing Benefits/Perquisites**

- Which benefits are required by law?
- Which benefits enable an employer to compete for employees?
- Which benefits are cost-effective to purchase and to administer?
- Which benefits do employees prefer?
- Which benefits provide creative choices?



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**SIRM** **Variations in Benefits**

- Government-provided benefits
- Government-mandated benefits
- Voluntary or discretionary benefits
- Market practice benefits
- Tax treatment of benefits

Standardization is difficult because of variations in benefits.



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**SIRM** **Benefits Needs Assessment**

- Review strategy.
- Review philosophy.
- Analyze workforce demographics.
- Analyze benefits design and utilization data.
- Conduct gap analysis.



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**SIRM** **Types of Benefits**

**Paid-Time-Off and Family-Oriented Benefits**

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|-------------------------------------|--|
| <b>Paid-time-off (PTO) benefits</b> | Often legislated or part of collective bargaining agreements; embedded in culture and tradition.<br><i>Examples:</i> vacation, public holidays, parental leave, leave for illness. |
| <b>Family-oriented benefits</b>     | Help employees balance work roles with family roles.<br><i>Examples:</i> flexible work hours, child and elder care, domestic partner benefits.                                     |

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**SIRM** **Types of Benefits**

**Health and Welfare Benefits**

|                       |  |
|-----------------------|--|
| <b>Health</b>         | Funded through social or private insurance; affected by culture and location.<br><i>Examples:</i> medical, dental, wellness, employee assistance programs.   |
| <b>Disability</b>     | Pays employees unable to work because of illness or injuries; causes may be in or outside the workplace; may be funded by government, employer, and employee.<br>Short-term, long-term, and permanent. |
| <b>Life insurance</b> | Funded through social insurance and/or private insurance; paid to beneficiary.   |

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**SIRM** **Terminations and Severance**

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| <p><b>Terminations</b></p> <ul style="list-style-type: none"> <li>▪ Voluntary terminations                             <ul style="list-style-type: none"> <li>- When an employee resigns or retires</li> </ul> </li> <li>▪ Involuntary terminations                             <ul style="list-style-type: none"> <li>- When employers discharge employees for cause or workforce adjustments</li> </ul> </li> <li>▪ Circumstances under which an organization can terminate employment are prescribed by law and differ by country.</li> </ul> | <p><b>Severance</b></p> <ul style="list-style-type: none"> <li>▪ If required, severance pay must be compliant and fairly compensate terminated employees to avoid discrimination lawsuits and regulatory fines and penalties.</li> <li>▪ Circumstances, requirements, and amount varies by country; some similarities within regions.</li> </ul> |
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**SIRM** **Unemployment Insurance**

- Applies toward paying a percentage of an employee's salary in the case of the employee losing his or her job through no fault of the employee.
- Helps workers who have been terminated to transition from one job to another equally suitable job.
- May require a waiting period; benefit period is limited, as is the financial payout.
- Other terms associated with this benefit are employment insurance, job seekers' allowance/benefit, redundancy funds.

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**SIRM** **Retirement Plans**

**Defined benefit plan**

- Promises payment of a specific benefit amount at retirement.
- Vesting schedule is set up.
- Benefits are based on service and perhaps salary; decided by a formula.
- Provides a pre-specified level of benefits.
- Employer bears investment risk.

**Defined contribution plan**

- Money contributed regularly is specified.
- No promise is made regarding the future value of the benefit.
- Employees receive 100% of their investment and the vested employer portion.
- Requires individual employee accounts.
- Amount at retirement depends on the return.
- Employee bears investment risk.

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**SIRM** **Fiduciary Responsibility**

**Fiduciary duty**

Implies legal obligation of one party (for example, employer) to act in best interest of another (for example, employees).

**Fiduciary**

Refers to obligated party (individual or party entrusted with care of money or property).

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**SIRM** Social Security 

- Varies by country.
- Generally refers to:
  - Social insurance, where people receive benefits or services in recognition of contributions to an insurance program.
  - Services provided by government or designated agencies responsible for social security provision.
  - Basic security irrespective of participation in specific insurance programs where eligibility may otherwise be an issue.

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**SIRM** Perquisites 

- Free/discounted products or services
- Mobile devices
- Professional organizations/certifications
- Training programs
- Education fees
- Housing
- Company car and/or cash car allowances
- Club memberships
- Meal allowances

**Perquisites vary by country and culture.**

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**SIRM** Common Benefits Metrics 

| Metric   | Description/Formula   | Strategic Value   |
|--|---|---|
| <b>Benefits costs as a percentage of total payroll costs</b> | Reflects the total costs of benefits divided by the total payroll costs for the organization.<br>$\frac{\text{Total benefit costs}}{\text{Total payroll costs}}$  | This metric identifies the proportion of benefits costs.  |
| <b>Health-care expense per employee</b>                      | Measures the health-care expense per employee for a given fiscal year. Total expenses include employee- and company-paid premiums, stop-loss insurance, and administrative fees.<br>$\frac{\text{Total health-care expenses}}{\text{Number of employees enrolled in health-care plan}}$ | This measurement can show the per capita cost of the benefit (for example, the average per person). |

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| SIRM Common Benefits Metrics                                 |   |   |
|--|---|---|
| Metric   | Description   | Strategic Value   |
| <b>Annual increase/decrease in health-care benefit costs</b> | Represents the expected increase/decrease in the organization's health-care expense for a given fiscal year; a comparison of the current health-care expense per employee metric to previous years and projected. | This measurement alerts an organization to the increasing costs of health-care benefits and helps the organization assess if actions must be taken to control benefits costs. |
| <b>Insurance participation rate</b>                          | Indicates total percentage of employees enrolled in insurance benefits.<br>$\frac{\text{Number of employees enrolled}}{\text{Total number of employees}}$   | Helps provide feedback as to the quality and value of the benefit; helps in evaluating competitiveness of total compensation strategy.  |




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