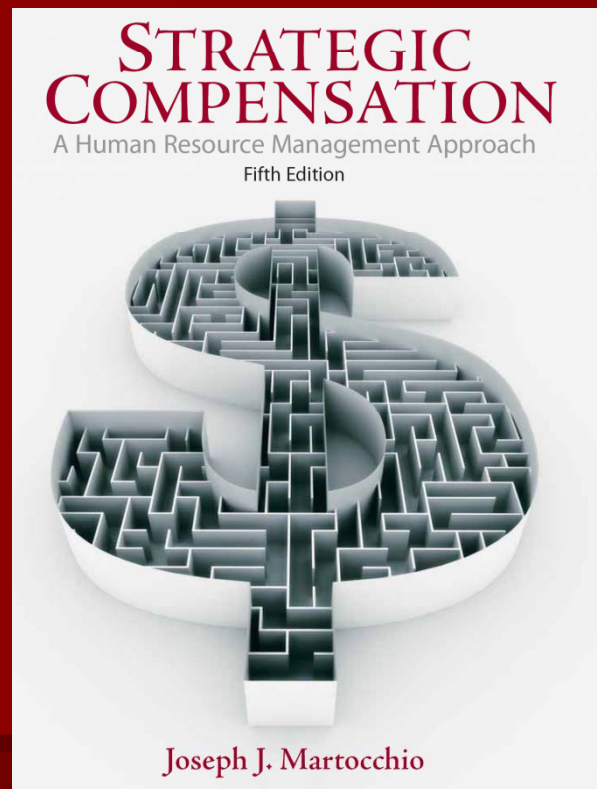


# STRATEGIC COMPENSATION

*A Human Resource  
Management Approach*



## Chapter 1

### **Strategic Compensation: A Component of Human Resource Systems**

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# What Is Compensation?

- Compensation represents the rewards employees receive for performing their job. They are either:
  - Intrinsic
  - Extrinsic

# 5 Core Job Dimensions

- Skill variety
- Task identity
- Task significance
- Autonomy
- Feedback

# Elements of Core Compensation

- Base Pay

Hourly pay

Annual salary

- Base pay adjustments

COLAs

Skill-based pay

Merit pay

Incentive pay

Pay-for-knowledge

Seniority pay

# Four Compensable Factors

- An employee's skill level
- An employee's effort
- An employee's level of responsibility
- The severity of the working conditions

# Discretionary Benefits

## Three Broad Categories

- Protection programs
- Pay-for-time-not-worked
- Services

# Compensation Benefits Costs

Benefits	All Workers		Management / Professional		Sales / Office		Service	
Type	\$*	%	\$*	%	\$*	%	\$*	%
Total	\$27.82	100.0 %	\$46.42	100.0%	\$21.01	100.0%	\$15.51	100.0 %
Base Pay	19.47	70.0	32.89	70.9	14.93	71.1	10.95	70.6
Paid Leave	1.96	7.0	3.73	8.06	1.41	6.7	.91	5.9
Other**	4.17	21.5	6.72	20.4	3.01	20.2	2.22	20.3
LRB***	2.21	7.9	3.07	6.6	1.66	7.9	1.43	9.2

\* Refers to employer costs per work hour

\*\* Other refers to the expenses to provide supplemental pay, insurance, and retirement/savings

\*\*\* LRBs are legally required benefits

# Legally-Required Benefits

Federal Legislation Designed to:

- Promote worker safety and health
- Maintain family income
- Assist families in crisis
- Provide assistance in case of
  - Disability
  - Unemployment

# Strategic Activities

- Strategic decisions - Guide the activities of companies in the market
- Strategic management - Entails judgments that direct a company toward achieving specific goals
- Strategic planning - Supports business objectives

# Competitive Strategy

- The planned use of company resources
  - Technology
  - Capital
  - Human Resources
- 2+ years time span
- Choices
  - Lowest cost strategy
  - Differentiation strategy

# Competitive Strategy Choices

- Lowest Cost: Focus on being lowest cost producer/seller of goods or services
- Differentiation: Focus on offering unique goods or services

# Lowest-Cost Strategy

Effective when Jobs:

- Include predictable behaviors
- Have a short-term focus
- Require autonomous activity
- Focus on quantity of output

# Differentiation Strategy

Effective when Jobs:

- Require highly creative behaviors
- Have a long-term focus
- Demand cooperation and independence
- Involve risk-taking

# HR's Role

- A quotation from Jay Hannah of BancFirst Corporation.  
“The HR department is the source and keeper of critical information, which is key in today’s workplace. With the information they provide, we in turn can build and design strategies to hire and retain the best workforce possible. And this may sound cliché, but it’s very true – the real competitive advantage is our company’s human resources.”

# Human Resources Responsibilities

- Recruitment
- Selection
- Performance appraisal
- Training
- Career development
- Labor- management relations
- Employment termination
- Insuring legal compliance

# Employment Termination

Two Types:

- Involuntary
  - Terminated
  - Laid-off
- Voluntary
  - Quit
  - Retired

# Legislation Themes

- Income continuity, safety work hours
- Pay discrimination
- Meeting disabled and family needs
- Prevailing wage

# Employment Legislation

- Davis – Bacon Act
- Fair Labor Standards Act
- Equal Pay Act
- Civil Rights Act
- Pregnancy Discrimination Act
- Americans with Disabilities Act
- Family and Medical Leave Act

# Compensation Goals

- Internal consistency
- Market competitiveness
- Recognizing individual efforts

# Internal Consistency

Achieved when the value of each job is clearly defined

- Represents:
  - Job structure
  - Hierarchy
- Achieved using:
  - Job analysis
  - Job evaluation

# Market Competitiveness

- Compensation policies that fit with business objectives
- Vital in attracting and retaining employees
- Are based on:
  - Strategic analyses
  - Compensation surveys

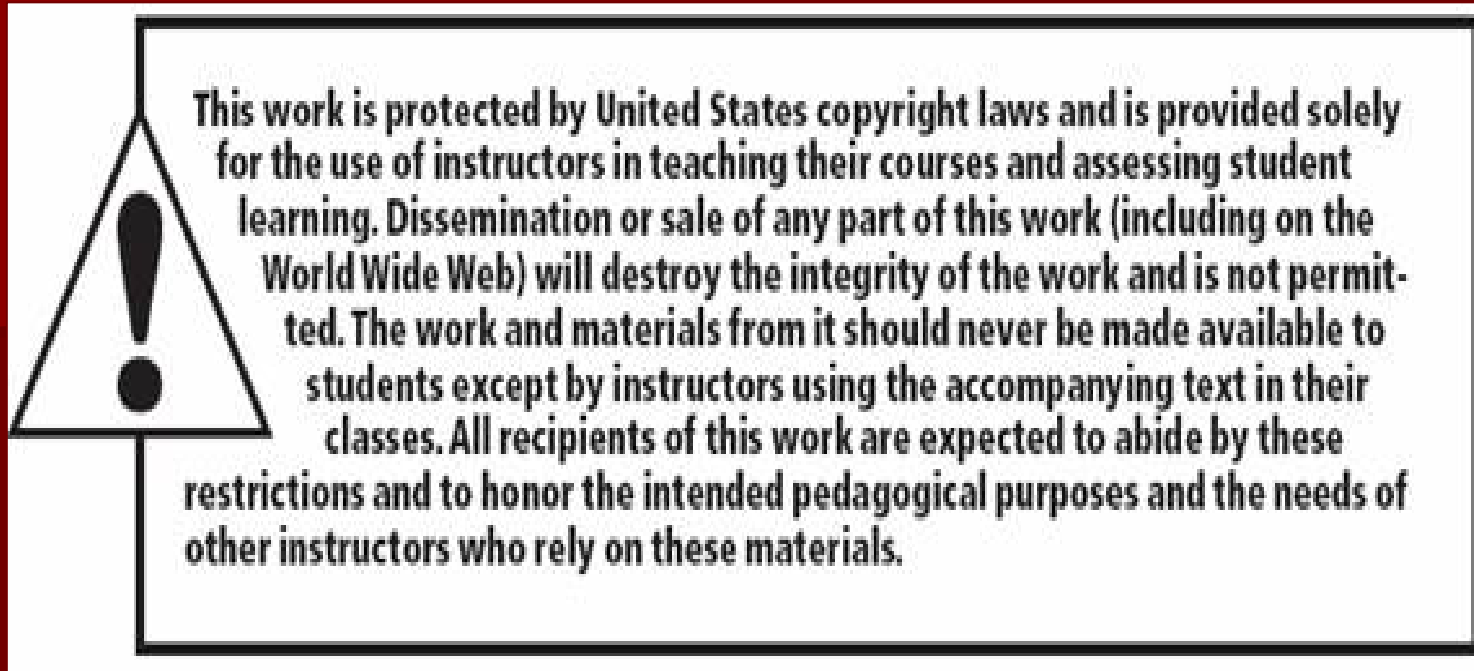
# Individual Contributions

- Pay Structures: Pay is determined by employee's credentials, job knowledge, and job performance
- Pay Grades: Based on compensable factors and value
- Pay Ranges: Builds on grades, uses midpoints, minimums, and maximums

# Stakeholders

Individuals or entities directly affected by compensation practices, like:

- Employees
- Line managers
- Executives
- Unions
- U.S. government



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