BMT 2580: COMPENSATION AND BENEFITS MANAGEMENT

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Compensation and Benefits Management

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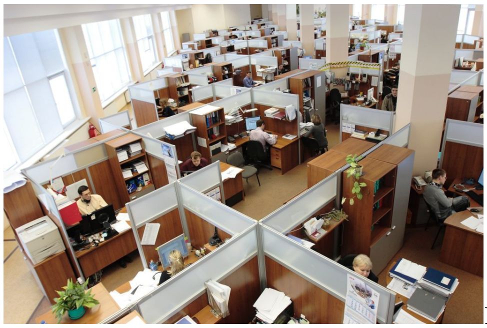
CHAPTER OVERVIEW

1: Classify different forms of pay levels and pay structure.

1.1: Why It Matters- Compensation and Benefits

Why learn about various compensation and benefits plans and their effectiveness?



Personnel costs (including compensation, benefits, and taxes) represent a business' largest expense. According to Paycor, "labor costs account for as much as 70% of total business costs." However, despite this, Paycor found that HR professionals invest only 15% of their time managing these costs.[1] Given the significance of personnel as a human capital and cost, it's critical for HR management to ensure that these resources are being allocated in a way that supports organizational strategies and values. That is, that the types of compensation and benefits offered are what employees value—and, therefore, are effective in motivating them—and that they are distributed intentionally and equitably.

The reality is, this generally doesn't happen. As we will discuss in Module 9: Performance Management and Appraisal, evaluations are often corrupted by bias and traditional appraisal methods aren't relevant in what is (and is expected to remain) a dynamic, disruptive operating environment. For perspective, a People IQ survey determined that 87% of both managers and employees considered annual reviews ineffective.[2] Lack of buy-in or an inability to have difficult conversations can also undermine motivational and development goals. In some business cultures and, indeed, entire industries, expectations of self-sacrifice are endemic, and equity is a term that is interpreted in a manner that evokes George Orwell's Animal Farm; that is, "all animals are equal, but some animals are more equal than others." Although different roles clearly have different values to an organization, equity and ethics require that compensation be based on performance, not bias or politics.

Meeting Employee Needs

The challenge in evaluating compensation and benefits is understanding employees' needs and where they are in terms of their development—especially in a workforce populated by five generations that include a broad range of cultures. Although some small percent of working Americans don't need a paycheck, the majority do.

A 2017 study conducted by employment website CareerBuilder found that the majority of working Americans live paycheck to paycheck.[3] Additionally, 25% of workers are unable to contribute to savings monthly, and 61% don't have a six-month emergency fund, as is recommended.

This vulnerability became obvious during the 2018–2019 government shutdown. The shutdown jeopardized the security of almost 5 million workers. After over 3 weeks of "financial limbo," the President signed a bill guaranteeing that the 800,000 furloughed government employees would receive back pay.[4] However, there was no provision made for the over 4 million contractors who were simply collateral damage.[5]

This sense of vulnerability is something that organizations—and society—will need to address. And it's a vulnerability that makes Simon Sinek's quote "When people are financially invested, they want a return. When people are emotionally invested, they want to contribute" sound elitist. Yes, most of us aspire to the top of the pyramid—to self-actualization and contribution. But first, let's address worker's basic needs and perceptions of fairness. Consider how motivating (or not) it is when the CEO makes 200 or 20,000 times the median employee salary[6] or when you have to work an additional three month's to match your peer's salary. Workers have a right to a fair financial return as well as safety and health (discussed in Module 14: Safety, Health, and Risk Management). HR management has an ethical and fiduciary obligation to ensure that that happens.

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1.2: Introduction to The Law and Compensation

What you'll learn to do: Discuss the laws regulating compensation

Compensation legislation is intended to address chronic issues of worker exploitation and pay inequity during (and since) the Industrial Revolution. In this section, we'll discuss two pieces of landmark compensation legislation: the Fair Labor Standards Act of 1938 and the Equal Pay Act of 1963.

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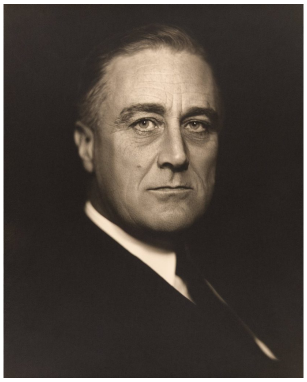
1.3: Fair Labor Standards Act

Learning Outcomes

- Discuss the Fair Labor Standards Act (FLSA)



Signed into law in 1938, then-President Franklin D Roosevelt referred to the Fair Labor Standards Act as "the most far-reaching, far-sighted program for the benefit of workers ever adopted in this or any other country."[1] As History.com reports, "the FLSA was designed to 'put a ceiling over hours and a floor under wages.'" More broadly, the intent was to eliminate "labor conditions detrimental to the maintenance of the minimum standards of living necessary for health, efficiency and well being of workers."[2]

Minimum Wage

To that end, FLSA establishes minimum wages, overtime pay, recordkeeping, and youth employment standards for all American workers.

The initial minimum wage was $0.25/hour, rising, over the period of 71 years, to the current federal rate of $7.25 per hour (since July 24, 2009). On July 18, 2019, the House passed a bill raising the federal minimum wage to $15.00 per hour and extending the $15.00 per hour minimum to tipped workers, who are currently paid a minimum of $2.13.[3] However, ABC News reports that "the bill has almost no chance [of passing] in the Republican-controlled Senate."

States, cities and counties can set their own minimum wage laws. When an employer is subject to multiple minimum wage laws, the higher minimum wage prevails.

California Minimum Wage

For perspective, as of January 1, 2019, the minimum wage in California is $12.00 per hour, or $11.00 per hour for employers with 25 or fewer employees.[4] The state minimum wage is scheduled to increase annually to $15.00 per hour in 2022 or 2023, if the employer has less than 26 employees.

On July 1, 2019, the minimum wage increased in seven Bay Area cities, with new minimums ranging from $13.50 per hour in Alameda and Fremont to $16.30 per hour in Emeryville. San Francisco and Berkeley increased the minimum wage from $15.00 to $15.59 an hour.[5]

Note that the minimum wage is law; employee and employer or cannot negotiate a lower wage and the minimum applies to adults as well as minors—there is no distinction made between adults and minors when it comes to payment of the minimum wage. As stated on the California Department of Industrial Relations website, "The minimum wage is an obligation of the employer and cannot be waived by any agreement, including collective bargaining agreements."[6]

Working Hours and Overtime

Employees covered by the Act must receive overtime pay at a rate of at least 1.5 times their regular rate of pay for any hours worked over 40 in a workweek. The Act does not require overtime pay for work on weekends or holidays unless the overtime hours are worked on those days. An employee's workweek does not need to coincide with the calendar week. It is, however, a fixed and regularly recurring period of 168 hours.[7] The Act defines hours worked as "all the time during which an employee is required to be on the employer's premises, on duty, or at a prescribed workplace."[8]

Exempt vs Non-Exempt

FLSA regulations with regards to hours and overtime pay apply to non-exempt employees only. In some cases, the distinction between exempt and non-exempt is based on job classification. In other cases, the distinction is based on three factors, as outlined below:[9]

- **Compensation test.** If employees are paid less than $23,600 per year, they are considered non-exempt.
- **Salary test.** Generally, if employees are paid on a salary basis—that is, they have a "guaranteed minimum" amount of money they can count on receiving for any work week in which they perform "any" work—they are exempt.
- **Work performed.** Employees who meet the compensation and salary tests are exempt only if they also perform exempt job duties. Exempt job duties fall into three categories: "executive," "professional," and "administrative." For additional details and interpretation, refer to attorneys Chamberlain, Kaufman & Jones' discussion of FLSA coverage.

Most employees must meet all three "tests" to be exempt.

Record Keeping

FLSA's recordkeeping requirements including the following:

- Employers must post an official poster outlining the provisions of the Act
- Employers must keep records for each non-exempt worker that include specific identifying information, hours worked and wages earned. For details, refer to the U.S. Department of Labor Wage & Hour Division's FLSA Recordkeeping Fact Sheet.
- Payroll and related records (e.g., collective bargaining agreements) must be retained onsite or in a central records office for 3 years
- Supporting documentation (i.e., work and time schedules and records of any adjustments to wages) should be retained for two years

Records must be open for inspection by Wage & Hour Division representatives, who may ask the employer to make extensions, computations, or transcriptions.

Workers under 18

As stated by the U.S. Department of Labor, "The youth employment provisions of the FLSA were enacted to ensure that when young people work, the work does not jeopardize their health, well-being or educational opportunities." FLSA provisions applicable to nonagricultural occupations are summarized below; for Child Labor Requirements in Agricultural Occupations refer to the associated DOL compliance page.

Both Federal and State laws govern the employment of young workers; when both are applicable, the stricter standard applies.

Minimum Age Standards For Employment[10]

Under 14—May not be employed in non-agricultural occupations covered by the FLSA. Permissible employment includes acting, delivering newspapers, minor chores around private homes, or casual baby-sitting.

14–15—May be employed outside school hours in a variety of non-manufacturing and non-hazardous jobs for limited periods of time and under specified conditions.

16–17—The basic minimum age for employment. May be employed for unlimited hours in any occupation other than those declared hazardous by the Secretary of Labor.

18—No longer subject to youth employment provisions.

Children of any age are generally permitted to work for businesses entirely owned by their parents; however, children under 16 may not be employed in mining or manufacturing, and no one under 18 may be employed in any occupation the Secretary of Labor has declared to be hazardous.

PRactice Question

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Contributors and Attributions

1.4: Equal Pay Act of 1963

Learning Outcomes

- Discuss the Equal Pay Act of 1963

In the early 1900s, women comprised less than a quarter of the workforce. However, when men joined the military to fight in World War II, women were recruited to take their place and by 1945, 37% of the civilian workforce was female. Since women had traditionally earned less for doing similar work, unions and male workers feared that this growing source of cheap labor would lower their wages. In order to avoid future wage cuts, unions started to advocate for equal pay.

In 1942, the National War Labor Board also endorsed the idea of equal pay for equal work, issuing a "General Order supporting equal pay for men and women for work that was of 'comparable quality and quantity.'"[1] Over two decades later, the Equal Pay Act of 1963 (EPA) was enacted as an amendment to the Fair Labor Standards Act of 1938.[2]

Learn More

For perspective on the intervening years, see the Equal Pay Act write-up on the National Park Service's website.

To quote from the U.S. Equal Employment Opportunity Commission site: "The Equal Pay Act requires that men and women be given equal pay for equal work in the same establishment. The jobs need not be identical, but they must be substantially equal. It is job content, not job titles, that determines whether jobs are substantially equal."

Specifically, the EPA requires that employers cannot compensation men and women differently when they "perform jobs that require substantially an equal level of skill, effort and responsibility and when those jobs are performed under similar working conditions within the same establishment." Permitted pay differentials include those based on seniority, merit, quantity or quality of production, or other non-gender based factors. These factors are referred to as "affirmative defenses"; the employer has the burden of proving that their stated rationale applies. Finally, pay differentials can only be corrected with an increase; no employee's pay may be reduced.

PRactice Question

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EPA Violations

In EPA cases, the burden of proof is on the plaintiff. In Gordon v. U.S., the court held that "To state a claim of an EPA violation, an employee must show the employer:[3]

- Paid employees of opposite sexes different wages;
- For substantially equal work;
- In jobs that require substantially equal skill, effort, and responsibility; and
- That are performed under similar working conditions.

Once those elements have been established, "the burden shifts to the employer to prove the pay disparity is justified under one of four affirmative defenses: (1) a seniority system; (2) a merit system; (3) a pay system based on quantity or quality of output; or (4) any factor other than sex."

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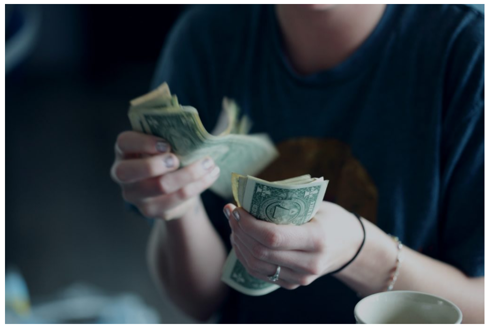
1.5: Pay Equity Issues

Learning Outcomes

- Discuss current pay equity issues
- Discuss compensation best practices in regards to pay equity



One of the most discussed and divisive pay equity issues is the gender pay gap, or the difference between what men and women performing comparable work are paid. Fifty-six years after passage of the Equal Pay Act, women still earn approximately 80% of what a male peer makes.[1] The National Women's Law Center calculates that this gap costs women who work full-time $10,169 annually; over the course of a 40-year career, that translates to $403,440 lost due to the pay gap.[2]

Drilling down into US census data, the statistics are even more stark. Here's the amount women earn, by race, for every dollar their white male counterpart earns:[3]

- Asian women: 85 cents
- White women: 77 cents
- Black women: 61 cents
- Pacific Islander women: 62 cents
- Native American women: 58 cents
- Hispanic women: 53 cents.

The National Committee on Pay Equity (NCPE), a coalition of women's and civil rights organizations, established Equal Pay Day in 1996 in an effort to raise awareness of this gap. Specifically, the organization declares a day in March to symbolize how much longer a woman would have to work to earn what a man made in the prior year. Or, how far women are "in the red" with their pay. Although the gender gap has narrowed since 1963, progress has been negligible since 2005.

Is there A Reason for the Pay Gap?

Pew Research states that "Much of the gap has been explained by measurable factors such as educational attainment, occupational segregation and work experience,"[4] and attributes narrowing primarily to "gains women have made in each of these dimensions." The New York Times gender editor and author Jessica Bennett counters that narrative:[5]

- Educational attainment (read: women are paid less because they have less education)
  - More women than men have earned bachelor's and masters (since the 1980s) and doctoral degrees (for the last 10 years)
- Occupational segregation (read: women are paid less because they choose low-paying fields)
  - While women are more likely to work in lower-paying professions such as education and health care, the pay gap is also evident in these fields.
- Work experience (read: women are paid less because they take time off to have children)
  - Women do experience a baby penalty, but the gap is also experienced straight out of college, where women with a similar GPA and working in the same field earns 93% of what their male peers earn.

As Maya Salam mused in the introduction to her "Womensplaining the Pay Gap" article in The New York Times: "If I had a nickel for every time someone told me, 'The gender pay gap is a myth,' I may have made back the income I've lost over the years for being a woman."[6]

The Pay Gap across the United States

As Figure 1[7] illustrates, a gender pay gap exists in every state.

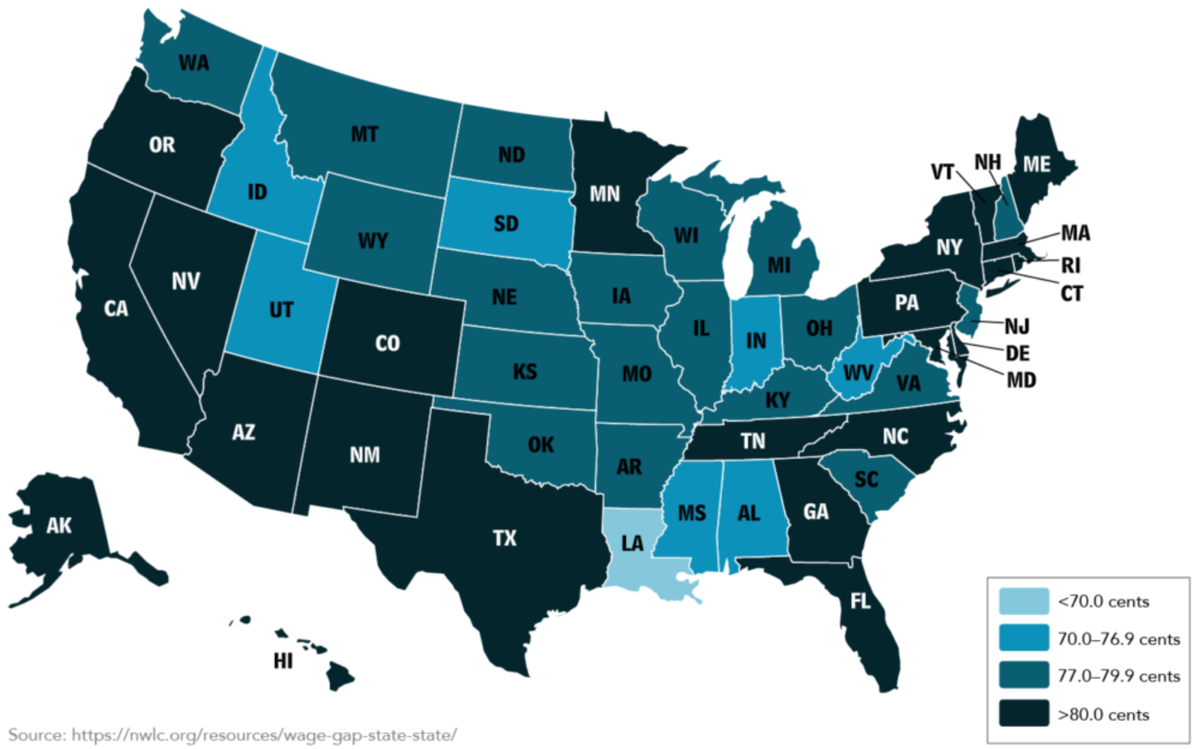


Figure 1. What Women Make for Every Dollar Men Make. Alternative text for "What Women Make for Every Dollar Men Make" can be found here.

The National Women's Law Center notes that "women fare best in California [also D.C., New York, and Florida], where women working full time, year round typically make 89 cents for every dollar their male counterparts make. Women fare worst relative to men in Louisiana and Utah, where women's earnings represented only 69 and 71 percent of men's earnings, respectively." Of the 25 major cities profiled by the AAUW, Los Angeles had the highest overall gender pay ratio at 91%, outperforming New York (85%), San Francisco (83%), Portland (79%) and Chicago and Seattle, both posting a ratio of 78%.[8] For perspective, the gender pay ratio is calculated as women's median earnings divided by men's median earnings.

The American Association of University Women (AAUW) notes that "Employer practices—such as using prior salary history in setting current pay and prohibiting employees from discussing their wages—compound the problem."[9] To the first point, a number of states and localities have passed laws banning employers from asking candidates for salary history. HR Dive notes that some "also prohibit an employer from relying on an applicant's pay history to set compensation if discovered or volunteered; others prohibit an employer from taking disciplinary action against employees who discuss pay with coworkers."[10]

California law, applicable to both private and public employers, prohibits requests for a candidate's pay history and, further, prohibits employers from using information if volunteered or otherwise known to determine a new hire's pay. Finally, the law requires employers to provide applicants with pay scale information if requested. Absent a state law regarding discussion of wages, an employer may be restrained by either the National Labor Relations Act (NLRA) or Executive Order 13665, both of which support wage transparency.

? LEarn More

For more on this point, read Nancy Owen's article "Is It Illegal to Prohibit Employees from Talking Salary?"

Economics of the Pay Gap

The pay gap isn't just a women's problem, it's a societal and economic issue. The Institute for Women's Policy Research (IWPR) notes that women represent almost 50% of the workforce and are the sole or co-provider in half of American families with children.[11] Despite being paid less, women's earnings are critically important to the stability of individuals, families and the extended family networks that women support. IWPR's analysis found that equal pay would:[12]

- Reduce the rate of poverty for working women by over half, from 8% to 3.8%
- Reduce the rate of poverty for working single mothers by almost half, from 28.9% to 14.5%
- Reduce the rate of poverty for working single women from 10.8% to 4.4%
- Reduce the number of children with working mothers living in poverty from 5.6 million to 3.1 million
- Increase GDP 2.8%

? Practice Question

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Best Practices

Until changes are made to federal or state laws, progress on closing the pay gap will require business leadership and advocacy. And, based on their values or in response to employee expectations or both, a number of businesses are taking the challenge. In its 2019 Compensation Best Practices Report, PayScale notes that "It will prove increasingly difficult to attract and keep the right people without ensuring your compensation philosophy, strategy and practices are in close alignment with your values as an organization."[13] As PayScale SVP of Marketing Tim Low notes "employees have become fed up when their organizations behave in ways that don't align with their personal values,"[14] referencing demonstrations and court cases based on perceived pay discrimination at Google, Nike and Oracle in 2018.

? Perspective Point

For perspective on what's at stake, a PaySale study found that "employees who rate their employers poorly on pay transparency are 80 percent more likely to say they want to leave in the next six months than those who give higher marks."[15]

What does success look like? Companies taking the lead, for example, Adobe, Starbucks and Salesforce, have achieved full pay parity for women and underrepresented minorities and are "taking steps toward creating a better workplace for women and minorities to thrive, advance their careers and move into more leadership roles."[16] As Adobe's Executive Vice President of

Customer and Employee Experience Donna Morris puts it: “If you fundamentally believe that people are the most important asset to your company, why wouldn’t you seek to establish practices and programs, and have a principal that you should compensate fairly based on their contribution?”[17]

Barbara Frankel picks up on the next steps point, stating that “pay equity is about more than just leveling salaries . . . [it] means creating equal opportunities for high-paying positions, evaluating areas of bias that may prohibit hiring and promotions, and factoring in work accommodations that could slow pay progress, such as flexible work arrangements and time off for family leave.”[18]

The following are best practice highlights based on Frankel interviews with executives:[19]

1. **Senior Leadership Commitment.** L’Oreal’s global leadership committed to equity and, specifically, not only equal pay but also a succession planning initiative to recruit and develop women leaders.
2. **Conduct Regular, Objective Pay Audits.** Companies recommend regular audits—including audits to reflect acquisitions—and use of experts or certification providers such as EDGE for validity and credibility.
3. **Communicate Results.** Clearly communicate results to make transparency a part of the culture.
4. **Define Performance Metrics.** Frankel relays L’Oreal USA’s head of Diversity & Inclusion Angela Guy recommendation to have “clear metrics on what defines good performance and [ensure], through unconscious bias training, that prejudices don’t influence what defines good performance.” The company also factors in the impact of maternity leave on performance and pay.
5. **Review Offer Process.** Salary history questions should be banned, regardless of whether a company is subject to state or local laws.
6. **Collaborate & Share Learning.** This was a requirement of the original White House Equal Pay Pledge, and it’s critical to accelerating progress.

? Practice Question

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1.6: Introduction to Types of Compensation

What you'll learn to do: Discuss various types of compensation

Prior to developing a compensation policy, human resource professionals should develop an understanding of the nature of rewards. In this section, we'll discuss the connection between compensation and motivation, differentiate between intrinsic and extrinsic rewards, and discuss types of compensation, factors affecting compensation, and methods of developing a pay structure.

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1.7: Compensation and Motivation

Learning Outcomes

- Discuss the connection between compensation and motivation

Although some dispute the link between compensation and motivation, it repeatedly shows up in surveys as one of the primary determinants of human behavior.

Before we take a look at the current research on the topic, answer the following question.

Practice Question

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In their 2019 Compensation Best Practices Report, PayScale notes that "some survey results show that money is the biggest motivator driving employees to seek other jobs, while others show career growth to be the primary incentive. Secondary reasons overall include issues related to benefits, fit with the organization or the job, and relationship problems with direct supervisor or managers."[1]

Gallup found that when employees are evaluating opportunities outside their current organization, they consider the following five factors most important:[2]

1. the ability to do what they do best
2. greater work-life balance and better personal well-being
3. greater stability and job security
4. a significant increase in income
5. the opportunity to work for a company with a great brand or reputation

In a national survey, 54% of employees rated direct financial compensation as "very important" or "extremely important" to motivation. When stratified by age group there was statistically insignificant difference between Baby Boomer, Gen X and Gen Y on this point.[3]

In an article titled "Compensation Doesn't Drive Motivation," author Kevin Howell titles one of the sections "Compensation Isn't Enough."[4] And that's a key point. Equitable compensation isn't enough to drive high levels of motivation, it's a minimum expectation. Forbes writer Ken Sundheim puts the compensation question in perspective, noting that research has shown that for employees to be motivated, basic minimums need to be met, including pay, working conditions and job security. Sundheim notes that "low compensation can not only hinder motivation and performance, but can actually create vengeful employees. When human beings feel they are being inadequately paid, they will tend to shift the majority of their focus on the unfairness of the situation."[5]

The reality is that our desire to reduce complex questions to simple answers—for example, to identify the one factor or most important determinant of behavior—belies the complexity of human experience. For example, Maslow's Hierarchy of Needs illustrates that we are motivated by different things at different stages of our development. Given that there are five generations in the workforce, it's likely that employees will be at different levels of development. Economic and health factors can also determine where a person is in their development and what they value and therefore what motivates them. Finally, changes in the employee-employer relationship and the nature of work may affect employee expectations and what significance the work has to an employee. For example, if a business is engaging in transactional relationships with its alternate workforce, it is likely to find those relationships (motivation) is driven more by compensation than other factors. Finally, generational changes in attitudes toward work may also impact what one wants from an employer. For some, "work" is not their life's work, but a side hustle, so non-financial rewards may have less value. Finally, a reductionist view fails to account for income inequality. There are many people who don't need to work. Someone like Alphabet CEO Larry Page, who was paid a dollar in 2018 (but is worth over 54 billion)—and, indeed, many Google employees—are not going to be motivated by compensation. However, the common refrain that compensation doesn't drive motivation is simply not consistent with the financial realities of many Americans. In a specialized economy where we must purchase rather than provide for our own basic needs, we are all motivated by money to meet those basic needs.

A more accurate answer is that what motivates a person depends on their specific situation. As is true of benefits, understanding a compensation requires what drives human motivation requires an understanding of where each person is in terms of their financial well-being and professional career development. Just as employees expect a personalized approach to benefits, employers who recognize that employees have different preferences for different types of rewards—from cash to recognition to autonomy—will have a better chance of not only getting an employee's initial commitment but keeping that person onboard and motivated. Keeping employees "Hungry" should refer to a person's drive for achievement, curiosity, not a physical state of need. If Employers want to tap higher-level capabilities, they should ensure that employees aren't distracted by lower-level needs. Pay is an important general motivator, but it is not the end of the story.

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1. "Will They Stay or Will They Go?: Employee Retention in an Uncertain Economy." PayScale. 2019. Accessed August 22, 2019. ↵
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3. "Compensation and Employee Motivation." whatishumanresource.com. Accessed August 22, 2019. ↵
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1.8: Intrinsic vs Extrinsic Rewards

Learning Outcomes

- Differentiate between intrinsic and extrinsic rewards

To understand the nature of rewards, we need to distinguish between those that are intrinsic and those that are extrinsic. Intrinsic rewards are internal and reflect an individual's interests, values and aspirations. An intrinsic reward is intangible; it might be the sense of satisfaction you get from mastering a new skill or the successful completion of a complex project or from working on a project that has personal significance or meaning.

In contrast, extrinsic reward is something that comes from an external source—for example, your instructor at school or your manager at work. Extrinsic rewards can be financial (a bonus, incentive, or commission) or non-financial (praise, a training badge, a development opportunity, or a coveted project assignment). There can also be elements of both; for example, a promotion would likely entail both a raise and a new title. Extrinsic rewards can also include intangibles such as the ability to work remotely or an invitation to participate in a mentoring program.

Dennis Coon and John Mitterer explain that "intrinsic motivation occurs when we act without any obvious external rewards. We simply enjoy an activity or see it as an opportunity to explore, learn, and actualize our potentials."[1] Intrinsic motivation is personal; for example, you may be intrinsically motivated to learn about or create a whole new world (think: Harry Potter), to improve the world or our experience of it, or to participate in a game or other activity. When individuals are intrinsically motivated, they typically perform at relatively high levels.[2] In contrast, when a person is extrinsically motivated, his or her activity or behavior is a means to an end rather than an end in itself.[3]

The ideal is when what you find intrinsically motivating is also what you do for a living. This is the idea that Steve Jobs communicated in his legendary commencement address at Stanford: "You've got to find what you love. And that is as true for your work as it is for your lovers. Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do."

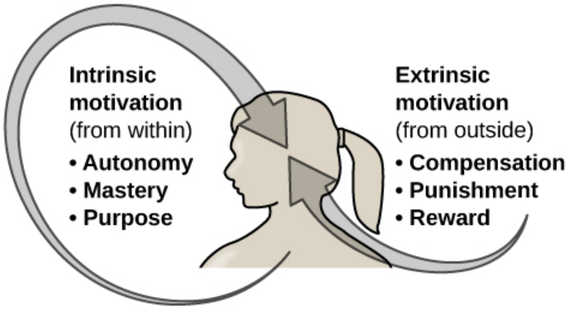

Figure 1. Intrinsic motivation comes from within the individual, while extrinsic motivation comes from outside the individual. Alternative text for "Figure 1. Intrinsic Motivation Extrinsic Motivation" can be accessed here.

Practice Question

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Although intrinsic motivation is personal, its characteristics are universal and include:[4]

1. **Autonomy:** the person has control over how they activity is accomplished
2. **Mastery:** there is an element of progress and increasing competence or growth
3. **Relatedness:** there is a sense of community with others who are engaged in the activity
4. **Purpose:** the activity is perceived as meaningful

A manager can't prompt intrinsic motivation or provide an intrinsic reward, since the motivation flows from the employee's interest in and value for a particular type of work. A manager does, however, have control of situational factors. Management consulting firm Hay Group (acquired by Korn Ferry) reports business results can vary by up to 30% based on differences in the work climate created by a manager.[5] Jobs can also be designed to better support employees, as discussed in Module 5: Workforce Planning.

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1. Cherry, Kendra. "Intrinsic Motivation: Why You Do Things." VeryWell Mind. July 26, 2019. Accessed August 22, 2019. ↵
2. Makki, Arooj and Momina Abid. "Influence of Intrinsic and Extrinsic Motivation on Employee's task Performance," *Studies in Asian Social Science* 4, 1 (2016): 38-43. Accessed August 22, 2019. ↵
3. Ibid. ↵
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5. "Managing Reward: Why Line Managers are the Vital Link." go2HR. Accessed August 22, 2019. ↵

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1.9: Types of Compensation

Learning Outcomes

- Discuss types of compensation
- Discuss factors affecting compensation

Compensation is generally broken down into two primary types: direct and indirect. Direct compensation consists of monetary payments based on time worked or results achieved, including both base and incentive pay. Indirect compensation includes costs incurred for benefits, including vacations, health insurance, retirement plans, federally required protections (e.g., disability and unemployment insurance), and other employee benefits.

A third type of compensation is intangible. Intangible compensation includes non-financial rewards such as mentoring, awards or badging, recognition, and factors that impact quality of work or work/life balance such as greater autonomy, a flexible work schedule, or the ability to work remotely.

Common Examples of the Types of Compensation[1]

Direct Compensation	Indirect Compensation	Intangible Compensation
Base salary/ hourly wage	Retirement Plan	Quality of work/life balance
Cash bonuses	Health Insurance	Company values/inspiration
Annual incentives	Cars	Future growth opportunity

Practice Question

https://assessments.lumenlearning.co...essments/18177

Compensation is determined by the interplay of internal and external market and regulatory factors, as summarized below.

Worker Productivity

Theoretically, wages should increase when worker productivity increases. This is an economic calculation based on the market structure, costs of production, and market price and quantity.

Supply and Demand for Labor

Theoretically, wages should increase when the demand for labor exceeds supply or, as is the case currently, unemployment is at a historical low. There may also be geographic variances in wages based on the local/regional availability of and competition for labor.

Legislation

As discussed in Fair Labor Standards Act, laws such as the FSLA—including state and local variations—set a minimum standard for compensation.

Labor Unions

Wages are one of a union's mandatory collective bargaining issues. As we'll discuss in Module 13: Union–Management Relations, employers who are subject to collective bargaining agreements tend to have higher wage and benefit costs than similar employers without union representation.

Cost of Living

An increase in inflation results in a corresponding loss of purchasing power. Theoretically, wages should increase when the cost of living increases so workers are able to maintain their standard of living. There is also a geographic element to this factor. We see this in the variation in minimum wages set in cities and localities where the cost of living is relatively high.

Industry Ability to Pay

There is a significant gap in what a technology company like Facebook can pay and what a non-profit, small business or start-up can afford to pay. The compensation differential may be offset by the sense of purpose or the opportunity to build a small business.

Compensation Policy

An employer's position relative to the competition or market will affect the wages it offers. Generally, employers will take one of three positions: lead, lag or match. If an employer's policy is to lead the market, they will pay relatively higher wages than the competition. The rationale is that they will be able to attract a higher caliber of employees and see an offset in increased productivity and reduced training and turnover costs. Similarly, the face value employee cost savings of a "lag" practice may be offset by higher recruiting, training and turnover costs. A match policy is simply to set compensation at the market rate.

? PRactice Question

https://assessments.lumenlearning.co...essments/18178

1. "Managing Reward: Why Line Managers are the Vital Link." go2HR. Accessed August 22, 2019. ↵

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1.10: Introduction to Benefits and Benefit Trends

What you'll learn to do: Discuss benefits and benefit trends

Compensation—and employee expectations—doesn't end with a paycheck. And the technology, generational and competitive market trends that are impacting other aspects of human resource management are evident in the benefits area as well. In fact, HR compliance firm XpertHR identifies "offering the right employee benefits" as one of the "Top 10 HR challenges of 2019."[1] In this section, we'll discuss employee benefits and future benefit trends.

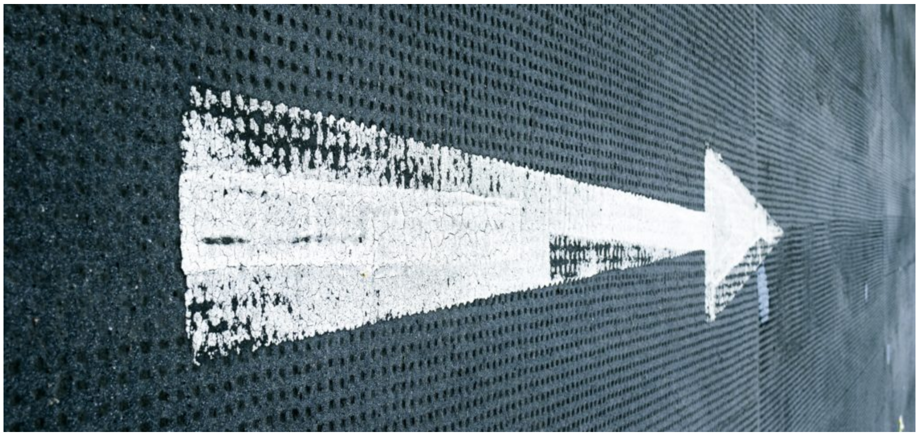

Figure: (Unsplash license; Tuesday Temptation via Unsplash)

1. Mucha, Rachel. "A 2020 Vision: Is Your Benefits Package Ready for the Future?" HR Morning. February 13, 2019. Accessed August 22, 2019.

1.11: Benefits

> **Learning Outcomes**
>
> - Discuss various benefits

Legally Required Benefits

35th U.S. President Franklin D. Roosevelt signing the Social Security Act in 1935.

Benefits are the elements of an employee's compensation package other than salary or wage. Some benefits are legally mandated; for example, Social Security, Medicare, unemployment insurance, and workers compensation insurance (which we'll discuss briefly below). Discretionary benefits include paid leave (for example, vacation, holidays, sick or personal days), health, dental and vision coverage, retirement plan, life and disability insurance, wellness benefits. Clarification: "large employers" are subject to the Affordable Care Act Employer Mandate that requires a minimum level of health care coverage. For details, refer to legal publisher Nolo's article on employer's healthcare requirements under the Affordable Care Act.

- **Social Security.** Established in 1935 by the Social Security Act, social security is a social insurance program that provides retirement, disability and survivors' benefits for workers, who contribute to the system by paying Federal Insurance Contributions Act (FICA) taxes withheld from most paychecks.
- **Medicare.** Medicare is the U.S federal health insurance program for people who are 65 or older, among others.[1]
- **Unemployment Insurance.** Unemployment Insurance is a joint state-federal program that provides cash benefits to eligible workers who are unemployed through no fault of their own. All states follow the guidelines established by federal law, but each state sets its own additional requirements for eligibility, benefit amounts, and length of time benefits can be paid. In general, benefits are based on a percentage of your earnings over a recent 52-week period.[2]
- **Workers Compensation Insurance.** Workers' compensation insurance is insurance that covers medical expenses and a portion of lost wages for employees who become injured or ill on the job.[3] Each state has its own unique set of workers' compensation laws that employers must follow. Workers compensation insurance is paid by employers; premiums are calculated back on employee classification (type of work) and the rate associated with that classification.

A budgeting rule of thumb is to estimate that employee benefits will cost 30% of an employee's salary. Although that's clearly a significant cost, benefits can also be a critical differentiator in a competitive labor market. Employer research and salary site Glassdoor reports that 57% of job seekers consider benefits among their top criteria in evaluating a new job.[4]

Additional Benefits

As companies raise their game, perks such as unlimited vacation and work-from-home Fridays are no longer differentiators. Based on Benefits Reviews posted on the site, Glassdoor identified 20 benefits that transcended the basics and put the offering company in “legendary” status. A few highlights:[5]

1. **Paid parental leave.** Ikea offers up to four months of paid parental leave to both part-time and full-time employees with at least one year of experience at the company
2. **On-site fitness.** Reebok encourages employees to reach their personal fitness goals by providing an on-site gym with Crossfit classes.
3. **Gender reassignment surgery.** Goldman Sachs offers coverage for gender reassignment surgery.
4. **Pet health care.** Scripps Health offers its employees’ health insurance for cats and dogs.
5. **Flexible schedules.** Insurance company Swiss Re’s “Own the Way You Work” program encourages employees to embrace flexibility with their schedules and work remotely.

? Learn More

You can check out the complete list here: Top 20 Employee Benefits & Perks for 2017

? Practice Question

https://assessments.lumenlearning.co...essments/18180

? Perspective Point

Glassdoor notes that “while benefits and perks are a great way to get employees in the door, they’re not among the leading factors that keep employees satisfied on the job and with a company long-term.” We’ll discuss this idea more in Module 10: Building Positive Employee Relations.

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1. "What's Medicare?" Medicare.gov. Accessed August 22, 2019. ↵
2. "What is Unemployment Insurance and How Do You Know if You're Eligible?" Careeronestop. Accessed August 22, 2019. ↵
3. "A Small Business Owner's Guide to Workers' Comp Insurance." Progressive Commercial. Accessed August 22, 2019. ↵
4. Glassdoor Team. "Top 20 Employee Benefit Perks for 2017." Glassdoor. February 7, 2017. Accessed August 22, 2019. ↵
5. Ibid. ↵

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1.12: Benefit Trends

Learning Outcomes

- Discuss benefit trends

In an article for SHRM, Compensation & Benefits Manager/Editor Stephen Miller notes the following benefit trends:[1]

- **Employers will get increasingly family-friendly.** Human resource consulting firm Mercer's national practice leader Simon Camaj notes that "state and local laws, the war for talent and changing social expectations will lead more employers to implement or enhance paid-parental-leave programs and consider adding paid caregiver leave for family-related absences."
- **Voluntary benefits will become more personal.** Mercer's voluntary benefits leader Tim Weber sees benefit offerings becoming more personal, with employers using "data-driven approaches to tailor [benefit] information and guidance, all wrapped in an engaging employee experience."
- **Emotional health will move to the forefront.** Benefits specialists expect increased access to behavioral health services. President and CEO of the nonprofit National Business Group on Health (NBGH) Brian Marcotte anticipates employers improving access to services to address a range of emotional, behavioral and mental health issues, including stress and anxiety, addiction, depression and other mental disorders.
- **Benefits technology will simplify employees' decision-making.** Business technology provider Businessolver's CEO Jon Shanahan expects benefit automation to help employees "learn, understand, and navigate the benefits process based on their specific needs." He also anticipates process improvements, noting that "HR managers say they lose 14 hours a week due to lack of automation."

In an article titled "Is Your Benefits Package Ready for the Future?" HR Morning writer Rachel Mucha cites research from Aon's Benefits and Trends Survey 2019 that found 37% of employers are changing or plan to change their benefits package in 2020 to better accommodate a multi-generational workplace.[2]

Perspective point

The concept of a basic one size fits all benefits package is obsolete. Companies are not only asking employees what perks or benefits they want, they're listening.

Mucha identifies the following 3 trends:

1. Millennials are disrupting the benefits game—health savings account (HSA), student debt repayment family benefits and flexible schedules all rate high with millennials.
2. Employers get innovative to rein in high healthcare costs—Employers are providing a range of wellness benefits, disease management programs and health screenings to combat chronic conditions and keep employees healthy.
3. Voluntary benefits are driving retention—According to SHRM's The Evolution of Benefits report, 72% of organizations increased their benefits offerings to retain employees in the last 12 months.

As Businessolver CEO Shanahan notes, “”In 2019 [and beyond], employees will demand more from their benefits packages, and employers will need to deliver and meet multigenerational employees' needs to stay competitive in the job recruitment market.”[3]

? Practice Question

https://assessments.lumenlearning.co...essments/18181

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1. Miller, Stephen. "6 Big Benefits Trends for 2019." Society for Human Resources Management. January 03, 2019. Accessed August 22, 2019. ↩
2. Mucha, Rachel. "A 2020 Vision: Is Your Benefits Package Ready for the Future?" HR Morning. February 13, 2019. Accessed August 22, 2019. ↩
3. Miller, Stephen. "6 Big Benefits Trends for 2019." ↩

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1.13: Putting It Together- Compensation and Benefits

Figure 1.13.1: Copy and Paste Caption here. (CC0, Harish Sharma, Pixabay)

It’s vital for HR management to ensure that the compensation and benefits offered to employees match employees’ needs and desires and keeps in step with a changing workforce. In addition to a changing workforce, many other factors affect the types of compensation and benefits companies offer, including changing legislation, rising cost of living, the presence of labor unions, and what an industry is able to pay.

Compensation practices are further complicated by growing income inequality in the United States, the gender pay gap, and rising health care costs. The United States—the second wealthiest nation in the world—has the highest level of income inequality of major developed nations. Income inequality and rising cost of living has led to a growing number of Americans living paycheck to paycheck, with a 2017 CareerBuilder survey finding that 78% of U.S. workers live paycheck to paycheck.[1] The quality of a compensation and benefits package can make the difference between falling into hundreds of thousands of dollars of medical debt, or being able to save for an emergency or retirement. If companies want to create an environment where their employees can focus on more than just meeting their basic needs and avoiding financial ruin, they should pay close attention to the compensation needs of their employees and the changing financial landscape.

Causes of the gender pay gap are multifaceted and pervasive.[2] HR personnel should be familiar with the ways that bias insinuates itself in compensation practices and work towards developing systems and procedures for eradicating biases in compensation and benefits.

Figure 1.13.1: (CC0, rawpixel, Pixabay)

While financial compensation is important, it is not the only factor that motivates and retains employees. Other motivation factors include work-life balance, personal well-being, job security, and company or brand reputation.[3] As the workforce changes, companies can expect to experience more demand for flexible schedules, student debt repayment benefits, wellness benefits, and more.[4]

For the modern company and HR management department, it’s worth thinking about ways that we can change the way we do business to promote income equality and reduce the impact of business on the earth’s environment. With issues including poverty, climate change, and an aging population[5], companies have a lot to consider when making decisions about how to best keep the workforce motivated and provide adequate support in a changing financial environment. It may be a good idea for companies to stay on the cutting edge of the compensation and benefits environment instead of remaining satisfied by the status quo.

1. "Living Paycheck to Paycheck is a Way of Life for Majority of U.S. Workers, According to New CareerBuilder Study." CareerBuilder. August 24, 2017. Accessed August 22, 2019. ↵
2. Salam, Maya. "Womansplaining the Pay Gap." The New York Times. April 02, 2019. Accessed August 22, 2019; Graf, Nikki, Anna Brown, and Eileen Patten. "The Narrowing, but Persistent, Gender Gap in Pay." Pew Research Center. March 22, 2019. Accessed August 22, 2019. ↵
3. Mann, Annamarie and Amy Adkins. "The Dream Job." Gallup. March 1, 2017. Accessed August 22, 2019. ↵
4. Mucha, Rachel. "A 2020 Vision: Is Your Benefits Package Ready for the Future?" HR Morning. February 13, 2019. Accessed August 22, 2019. ↵
5. Vespa, Johnathan. "The Graying of America: More Older Adults than Kids by 2035." United States Census Bureau. March 13, 2018. Accessed August 23, 2019. ↵

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1.14: Discussion- Compensation and Benefits

Pay equity issues run rampant in the United States. Women, on average, only earn a portion of what a man does, and a minority woman could earn even less yet. Organizations need only look in their own backyards to see the pay gap rearing its ugly head—almost every organization has one.

Discussion Prompt

You're an HR professional at an organization that thinks it's paying its women fairly. Still, you want to make sure. Bias and pay discrepancies come in all shapes and sizes, and symptoms of the pay gap could be lurking in the shadows. So, you start doing some research.

Where do you look? What are your plans? Online searches can provide you with a variety of places to look and steps to take to uncover pay gaps at your organization. List two or three different steps that you, as an HR professional, would take to ensure that the company is doing everything it can to ensure pay equity. Provide a quick explanation of each of those plans, if necessary, and share your sources. Once you've put together your list and explanation, review the lists of at least two other classmates, and provide them with suggestions.

Grading

Share your opinions below and respond to two of your classmates' thoughts.

Discussion Grading Rubric

Criteria	Not Evident	Developing	Exemplary	Points
Submit your initial response	**0 pts** No post made	**5 pts** Post is either late or off-topic	**10 pts** Post is made on time and is focused on the prompt	10 pts
Respond to at least two peers' presentations	**0 pts** No response to peers	**2 pts** Responded to only one peer	**5 pts** Responded to two peers	5 pts
			Total:	**15 pts**

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2: Examine internal alignment of pay structures

Learning Objectives

- Describe various methods of developing a pay structure

Developing a pay structure involves evaluating jobs and establishing associated salary ranges and grades based on market data and the company's compensation policy. The relative value of different roles is based on factors including responsibility, experience and education, key skills, effort/impact, and working conditions. A well-designed and transparent pay structure should help an organization attract and retain talent be perceived as fair and equitable.

Figure 2.1: (Pixabay License; via pixabay)

The steps involved in developing a pay structure are outlined below:

1. **Conduct a job analysis.** As discussed in the book Human Resources Management, a job analysis involves identifying the essential tasks and responsibilities of a job, including knowledge skills and abilities.
2. **Conduct a job evaluation.** Determine the relevance and value of the job to the organization. This involves comparing or evaluating roles based on criteria such as the required education and experience, skills, effort, level of responsibility or authority and potential revenue impact. In order to avoid introducing bias, the role should be evaluated based on the job criteria, not a specific employee in that role.
3. **Determine the basis for your pay structure.** Use one or both of the following methods to do so:
    - **Market Pricing (or benchmarking).** Setting a salary range based on market data. Note that job titles and descriptions aren't necessarily consistent across companies and industries. When conducting research, consider job details or descriptions to select appropriate salary benchmarks.
    - **Pay grades.** Establishing salary ranges for job groups. Pay grades are salary ranges established for groups of jobs with a similar value to the organization. For example, multiple sales roles may be included in the same grade if they require the same education, experience, skills and responsibility. In practice, then, the salaries of every sales person in the same grade would fall between the minimum and maximum of the range.

It's common to use benchmarking to establish pay grades and then fine-tune from there. Websites such as Glassdoor, Salary.com and PayScale provide minimum, midpoint, and maximum salaries that can form the basis for a pay range. Additional sources of market salary data include the following:

- The Bureau of Labor Statistics (BLS), which reports data by area and occupation
- O*NET OnLine, which provides occupational search and forecasting combined with BLS data

HR firms, career websites and industry and trade associations also conduct and publish salary surveys and provide related services. For example, CareerBuilder has a Supply & Demand Portal that provides compensation rates for specific positions.

Figure 2.2: (Pixabay License; via pixabay)

Pay grades can be based on market prices, as mentioned above, or actual salaries or a combination of the two methods. For example, you could use market data to establish the salary range for a specific pay grade and use actual salaries to determine the midpoint in the range. To establish pay grades based solely on actual salaries, create groups based on levels in the organizational hierarchy. For example, managers and vice presidents would be two separate pay grades. Multiple roles with similar organizational value, requirements and salaries can be included in the same group. The midpoint of the average of the salaries in a group can form the midpoint of the range. The minimum and maximum of a range can be calculated from the midpoint or relative to a lower and higher grade to form a logical progression.

Practice Question

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3: Examine external competitiveness of pay structures

Pay and benefits policies promoted by the organization will have a great social and economic impact on employees and communities. For example, company policies and practices can transfer the burden to and add stress on local social services systems as a result of inadequate wages and benefits.

The sustainable organization would benefit from ensuring the compensation structure is fair and equitable. Fair pay can be viewed internally and externally to the organization. Internal equity exists when the employees generally perceive fairness in the pay structure across employees. External equity refers to the perceived fairness of pay relative to what other employers are paying for similar labor. The ability to ensure the fairness of compensation is a difficult task. Sustainable companies want to attract the best employees by paying above-market compensation yet remain fair to existing employees with tenure. The organization should conduct pay studies annually to ensure programs remain competitive and implement an annual review cycle for ongoing monitoring. Managers can access salary data through online compensation surveys, such as those available at HR.com,Retrieved January 28, 2009, from http://www.hr.com Salary.com,Retrieved January 28, 2009, from http://salary.com or SalarySource.com,Retrieved January 28, 2009, from http://www.salarysource.com which provide information by location, industry, position, and work experience.

Companies have a choice to develop compensation systems based upon an **elitist system** (that which establishes different compensation plans for different employee groups) or an **egalitarian system** (having most employees under the same equal compensation plan). An egalitarian system is beneficial to highly competitive environments where companies are innovative, risk-taking, and continuously investing in new technologies and projects, which is typically how sustainable companies work. This type of compensation system provides more flexibility in employment by creating fewer differences between employee grades, creating a flatter organizational chart, and minimizing status-dependent perquisites. Fewer differences in compensation plans should result in increased task accomplishment and cooperation among employees by reducing barriers.

Transparency is a cornerstone of the sustainability movement. Even though companies can be transparent in accounting and financial reporting, transparency can also be achieved by communicating openly about policies and practices related to compensation and employment practices. When compensation practices are hidden from employees, they tend to perceive more underpayment than is actually real. Employees tend to compare their pay and benefits to other employees and may inflate any discrepancies they believe they see, thereby causing more dissatisfaction, less productivity, increased absenteeism, and turnover. Transparent compensation plans make management more fair in administering the compensation.

Sustainable organizations should also ensure they pay living wages rather than minimum wages. Minimum wage is set by legislation to be a minimum dollar amount per hour that must be paid by law. By contrast, living wage is the minimum income necessary for a person to attain a specified quality of life given the location and other economic factors where the person is employed. Living wages are generally higher than minimum legal wages. Sustainable firms will recognize the value of living wages in maintaining a productive and sustainable workforce.

In addition to providing living wages, sustainable businesses provide important benefits necessary for employee quality of life. Standard benefits packages, such as health insurance, dental insurance, and paid sick leave, are supplemented with additional benefits addressing work–family balance. Employees are considered to be more satisfied and productive with increased quality of work and home and community life. Sustainable organizations tend to establish work initiatives such as child care centers at the job, time off (leave) from work to care for sick children or elderly family members, paternity leave for male employees, flextime work, telecommuting, job sharing, tax breaks for commuting, and other employee-friendly benefits.

An example of a green employee benefit is demonstrated through HEAL Arkansas, a program started at the Addison Shoe Factory in rural Arkansas. After realizing that many employees spent up to 50% of their income on energy bills, the company implemented an energy-efficiency employee benefit that could help reduce energy bills, increase disposable income, increase quality of life for its employees, and even improve employee retention rates. HEAL Arkansas provides low-cost loans to employees for energy-efficiency home improvements. Employees receive home energy audits with recommendations on how to improve home energy efficiency. Loans are repaid through payroll deduction, which is offset by the employee’s energy bill savings.

One specific employee benefit of interest to the sustainable business is the **commuter-choice tax benefit**. The federal tax code (IRS, section 132f) allows employers to provide commuter-choice tax benefits to employees. Employees who commute to work through transit or car/vanpool can set aside up to $230 per month in pre-tax dollars for commuting expenses and up to $230 per month in pre-tax dollars for parking expenses. The employer can then also claim a tax deduction for the expense. Because the value of the benefits paid to employees is listed as a fringe benefit and not listed as wage or salary, the cost of the benefit is therefore considered a business expense and payroll taxes do not apply.

Another example of transportation benefits can be found at Clif Bar and Company, an organic food company in Berkley, California. The company distributes points to employees for selecting alternate modes of transportation to work, such as walking, biking, carpooling, or mass transit. The employees are then able to redeem those points for gift cards, company merchandise, coffee shop items, public transportation passes, or carbon offsets from various organizations that spend the money on projects such as reforestation, renewable energy research, or energy-efficiency technology. Clif Bar and Google, among other companies, actually provide employees an incentive to purchase green vehicles. Clif Bar will provide up to $5,000 to an employee for the purchase of a qualified car; the loan is provided up front and written off at $1,000 per year.Green Car Congress (2006).

An imperative for a sustainable organization's human resource department is flexibility. One strategy would be to hire contingent workers—employees hired to deal with temporary increases in workload or to complete work that is not part of the core requirements. Contingent workers are generally the first to be dismissed when an organization experiences a downturn. On the one hand, contingent employees provide protection for the full-time employee who might otherwise have been laid off during the downturn. On the other hand, the use of contingent workers ultimately creates a negative social impact. Contingent employees experience uncertainty about their work future, which can affect work performance. An additional human resource for hire would be interns, which would provide a positive social impact for both the individual and the company.

More sustainable ways to provide human resource flexibility can be accomplished through flexible work scheduling such as flexible work hours, compressed workweeks, or telecommuting. Flexible work scheduling can be accomplished through flexible work hours (flextime) where employees can choose to organize work routines that fit with their personal activities and lifestyles as opposed to the traditional workday hours. Compressed workweeks change the number of workdays per week by increasing the length of the workday, which, in turn, reduces the number of days required in a typical workweek. Compressed workweeks have the potential to positively impact the work–life balance and reduce stress for employees by providing extra time for families and activities. When implemented effectively, compressed workweeks have the potential to lower employee absenteeism and turnover rates for organizations. To date, several city, county, and state governments as well as numerous companies have implemented 4-day workweeks for employees with the anticipation of decreased energy and transportation costs and increased employee satisfaction and retention.

Telecommuting provides flexibility in both the hours and the location of work. Employees spend at least one day a month or more working from home while maintaining their connection to the office by phone, fax, and computer. Many employees, particularly highly extroverted individuals, may be more productive when they remove themselves from multiple distractions. Related to telecommuting is a practice called "office hoteling" or "hot desking." Office hoteling is the creation of a software reservation program that reserves office space to employees on an as-needed basis rather than in the manner of the traditional, permanent office space setup. Hot desking involves providing a desk that is shared between several people at different scheduled times. These practices reduce the amount of physical space, which lowers overhead cost and prevents resource hoarding or the underutilization of resources. From an environmental perspective, these methods result in reduced traffic and pollution as well as reduced energy consumption and costs for the company.

CHAPTER OVERVIEW

4: Evaluate performance appraisals versus pay-for-performance

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4.1: Performance Management Errors

Learning Outcomes

- Discuss common performance management errors

As alluded to in our discussion of appraisal methods, there are a number of factors that can distort appraisal results. In this section, we'll discuss perception errors and how to avoid them.

Indiana University's Human Resources identifies the following eleven perceptual errors:[1]

- **The Leniency Error.** Giving everyone high ratings regardless of actual performance, in an attempt to avoid conflict or to make yourself look good.
- **The Central Tendency Error.** Clumping or clustering all employees in the middle performance categories in an attempt to avoid extremes.
- **The Recency Error.** Failing to take into account the entire evaluation period and focusing on a recent performance episode, positively or negatively.
- **The Halo Effect Error.** Letting one favored trait or work factor influence all other areas of performance, resulting in an unduly high overall performance rating.
- **The Horns Effect Error.** Allowing one disfavored trait or work factor to overwhelm other, more positive performance elements, resulting in an unfairly low overall performance rating.
- **Contrast Error.** Evaluating an employee in relation to another employee rather than relative to his/her duties, goals and stated performance standards.
- **Past Performance Error.** Rating on past performance rather than present performance.
- **Biased Rating Error.** Allowing personal feelings toward employee to influence rating.
- **High Potential Error.** Confusing potential with performance.
- **Similar to Me Error.** Similar to me and therefore feeling of comfort and compatibility
- **Guilt by Association Error.** Evaluation influenced by employee's associations rather than performance.

Practice Question

https://assessments.lumenlearning.co...essments/18188

Avoiding Errors

Three tips to avoid these errors:

- Cultivate awareness or potential errors
- Rely on the data and documentation you've compiled, rather than your perceptions. That is, focus on the performance, rather than the person.

Note that there is a tendency to avoid accurate ratings—particularly on the downside—when there's a significant amount at stake—for example, a promotion/demotion, raise or PIP. Let the person's performance make the decision.

Developing and practicing techniques—for example, participating in appraisal and feedback simulations—for having difficult conversations will help you develop skills that will pay off in a variety of work and life situations. On her website, author, speaker, and trainer Judy Ringer provides a step-by-step checklist for having difficult conversations, including how to prepare yourself, 4 steps for a successful outcome and practice tips. For perspective, the four steps are highlighted below:[2]

- **Step #1: Inquiry.** Cultivate an attitude of discovery and curiosity.
- **Step #2: Acknowledgment.** Show that you've heard and understood what the person is saying.
- **Step #3: Advocacy.** Clarify your position without minimizing the other person's position.
- **Step #4: Problem-Solving.** Begin building solutions.

? Learn More

Check out Dana Caspersen's "Conflict is a place of possibility" TED Talk to learn more about this subject.

1. "Evaluate Job Performance." Indiana University Human Resources. August 2018. Accessed August 20, 2019. ↵
2. Ringer, Judy. "↵

Contributors and Attributions

CHAPTER OVERVIEW

5: Match the offered benefits with personal needs

5.1: Personal Decision Criteria When Considering Possible Job Targets

LEARNING OBJECTIVES

1. Understand the different ways a job impacts your personal values and life.
2. Learn strategies and exercises to prioritize the different personal impacts.

The Three Elements Paint an Incomplete Picture

Industry, function, and geography are helpful external criteria. When you look out into the market at the broad spectrum of jobs, having three elements to filter and narrow this down is critical. But you have other criteria important to you internally that are unrelated to a specific industry, function, or geography:

- Employer size (global *Fortune* 500 company, small business)
- Employer history (start-up, established, either OK)
- Employer name recognition (household brand name, start-up)
- Compensation (minimum salary of $x, bonus, equity)
- Opportunity for advancement and growth (clear path of advancement, training)
- Lifestyle (reasonable and set hours, no travel)
- Flexibility (able to work from home, able to work compressed workweek)
- Job structure (lots of autonomy, lots of structure)
- Culture and colleagues (friendly, meritocratic)

Being clear about the three elements will help you research, but understanding your internal criteria will help you *select* your next job. From the preceding, you can see three broad categories to consider:

1. Employer characteristics
2. Compensation and advancement
3. Lifestyle and environment

Employer Characteristics

An employer might be big or small, new or established, well branded, or unknown. These are all considerations that may or may not matter to you. Each has its pros and cons:

Table 5.1.2: Advantages and Disadvantages for a Sampling of Employer Characteristics

Type of Employer	Advantages	Disadvantages
Big Company	• Chance to meet lots of people and grow a big network • Likely more structured and defined role	• May be overwhelming • Role may be very siloed and narrow
Small Company	• You may know all or most of your colleagues. Chance to develop a small, but deep, network • You might have more variety in your tasks due to lack of staff	• Insular culture due to fewer perspectives • Less room for growth as there are fewer levels to move up into or fewer other departments to move laterally
New Company	• Chance to be part of growing and establishing something • Likely fast paced with lots of variety as there are no established structures in place	• No track record, so you may be getting into something that turns out different than expected • Lack of structures means lots of volatility
Old Company	• Established structures and best practices identified • Proven track record provides stability and security	• Might be less innovative or less receptive to change • Colleagues might be closed to new staff, hard to establish credibility

Type of Employer	Advantages	Disadvantages
Brand Name	• Great résumé builder, company's brand casts a halo effect on your qualifications • Glamour and prestige that accompanies working for a famous name	• People may have preconceived notions of the brand that cast a negative effect on you • Fewer brands means a more narrow search
Unknown Brand	• There are more of these companies out there. Not everyone can work at the market leader • Today's unknown might be tomorrow's market leader	• Not as valuable for marketing for your next job • Harder to market yourself for conferences and professional association leadership positions

Of course, there are gradations between each of the preceding extremes. You need to decide which, if any, criteria matter to you and your priorities. For example, is a brand-name company more important *to you* than whether it's big or small?

Compensation and Advancement

Compensation has many elements. Opportunity for advancement can be categorized with compensation because it is directly tied to compensation elements:

- Cash salary
- **Sign-on bonus**
- Other bonus (year-end, quarterly, performance)
- Profit sharing
- **Equity and stock options**
- Health benefits
- Insurance
- Retirement plans and pension
- Tuition reimbursement
- Travel and expense reimbursement
- Perks (professional association membership, discounts)
- Size and speed of salary increases and promotion opportunities

Some elements are more standard for certain jobs than others. Nonprofit and government jobs typically do not have any bonus components. You will want to find out what is customary in the sector, industry, and function you are considering, if a specific element of compensation is high on your list of priorities.

The range of offerings varies greatly from company to company and even within companies. One company in the same industry and for the same functional role may pay more or less and have a different compensation structure than another company in the same industry and function. Even within companies, there is variation because your compensation depends on the level of the job you are filling, as well as the skills and experience you are bringing to the job. Some roles have a lot of built-in variability. For example, sales roles may have a small defined portion (base salary or draw) and then have bonuses or commissions based on achieving certain goals (e.g., selling $x amount).

Look at your needs and priorities. What are your financial obligations? If you have a lot of student loan or credit card debt, then lower-paying jobs may just be out of the question. If you have a spouse with health benefits that you can use, then maybe that part of the package doesn't matter to you. If you are considering graduate school, then tuition reimbursement may be more attractive. Rank the compensation elements in the previous list, and know which are necessary versus nice to have versus of no interest. Compare your list with what is customary to your job targets to ensure that you are realistic in your job search.

Lifestyle and Environment

While compensation items can be quantified, the lifestyle and environment category includes the qualitative benefits of your job:

- Lifestyle
- Flexibility

- Job structure
- Culture and colleagues

Table 5.1.3: Areas to Explore When Considering Lifestyle and Environment Issues of Job Choices

Benefit	Considerations
Lifestyle	• Is there work and life balance? Are the hours very long? • Are the hours volatile, such that it's hard to plan for activities after work? • Is there a lot of travel? International travel? Long periods of time away? • Do people take vacations and lunch breaks, or is it an all-work mentality?
Flexibility	• Can I work from home? • Can I start and end my day when it suits me as long as I get the work done? Is this a 9–5 workplace? • Can I work longer hours on fewer days? • Can I take personal days as needed?
Job structure	• Is the role well defined, or will I have to make my own way? • Is the day-to-day experience very volatile? Will I be doing a lot of crisis management, or is it predictable?
Culture and colleagues	• Do people collaborate and work together, or is it a competitive place? • Do I like and respect my boss? Do I like and respect senior management? • Do I like my coworkers? Will I make friends here? • Will I have mentors and supporters here?

As with employer characteristics and compensation, itemize and prioritize what's important to you. This way, you can look for jobs with these criteria, and you can assess job opportunities that come your way against the things that matter to you.

How to Make Trade-Offs

Take all of these criteria, including industry, function, geography, employer characteristics, compensation, and lifestyle and environment, and create a master list of the things that matter to you. Rank that list, and note any criteria that you absolutely must have in a job. You should have some, but not many, must-have criteria. You want some must-have criteria because these will anchor your job search and keep you from chasing opportunities that will not make sense in the long run. At the same time, no job will meet all of your desired criteria, so you want to remain flexible and open to trading off some criteria for others.

One possible exercise to work through is to force rank your criteria. Make a master list of the criteria, including the preceding suggestions as well as any other criteria you wish to add. Eliminate from the list criteria you don't care about—for example, "Sure, a bonus would be nice to have, but I would still take a job that doesn't provide one." For the remaining criteria, select your top half and then select the top half from there. Keep reducing until you get to the criteria you absolutely must have in your next job and can delete no further.

A good example of using both external market criteria and internal personal criteria to make choices is Emily G., a recent undergraduate looking for her first full-time permanent position. She had interest in financial services and media, HR or office administration, and New York City. Her wish list still included a lot of job possibilities, and therefore the risk of a haphazard, diluted search. But Emily also highly prioritized a brand name company, which narrowed the field considerably. She also knew she did well in a more structured environment, so she looked for either established roles or at least a boss and colleagues with tendencies to coach and support. Otherwise, she was flexible, looking at new roles and old roles, staying open about all aspects of compensation, and otherwise not restricting herself except for brand name and structure.

Emily wants	Hired for

Emily wants	Hired for
New York City	New York City
Media or financial services	Media
HR or office administration	HR
Brand name	New division, but of a household name
Structure	Start-up environment, but very strong and supportive manager

Emily met her personal criteria because she knew to look for them. The job she accepted was not initially an obvious match because the company itself is very new, but it is a subsidiary of a brand name. The role also has the potential of being unstructured because of the start-up nature of the subsidiary, but Emily ensured she had supportive structures in place (an experienced boss with a supportive coaching style) before accepting. Similarly, you need to know your personal criteria, and find or negotiate your next job to meet them.

KEY TAKEAWAYS

- Industry, function, and geography are not enough when selecting your next job.
- You also want to look at employer characteristics, compensation, and lifestyle and environment.
- Not all criteria will or should matter to you. You decide what matters and how much you prioritize the criteria or are willing to make trade-offs.

Exercises

1. Using the list of different personal criteria, what are your top three priorities? The force-ranking exercise will help if your top priorities aren't immediately obvious.
2. Do your current industry, function, and geography targets meet the personal criteria you prioritize? If you see that the work and life balance is your top criterion, but your industry of choice is known for a very difficult lifestyle, do you plan to change industries or at least add additional industries for consideration? What characteristics will you look for in specific organizations to make sure you meet your work and life balance preference?
3. How will you reorient your search to more closely map industries and functions to your personal criteria? Remember the case study of Emily G., who was able to narrow down her target list to big companies in her target industry and function because she recognized that only these companies would have the possible support she prioritized.

5.2: Compensation and Motivation

Learning Outcomes

- Discuss the connection between compensation and motivation

Although some dispute the link between compensation and motivation, it repeatedly shows up in surveys as one of the primary determinants of human behavior.

Before we take a look at the current research on the topic, answer the following question.

Practice Question

https://assessments.lumenlearning.co...essments/18175

In their 2019 Compensation Best Practices Report, PayScale notes that “some survey results show that money is the biggest motivator driving employees to seek other jobs, while others show career growth to be the primary incentive. Secondary reasons overall include issues related to benefits, fit with the organization or the job, and relationship problems with direct supervisor or managers.”[1]

Gallup found that when employees are evaluating opportunities outside their current organization, they consider the following five factors most important:[2]

1. the ability to do what they do best
2. greater work-life balance and better personal well-being
3. greater stability and job security
4. a significant increase in income
5. the opportunity to work for a company with a great brand or reputation

In a national survey, 54% of employees rated direct financial compensation as “very important” or “extremely important” to motivation. When stratified by age group there was statistically insignificant difference between Baby Boomer, Gen X and Gen Y on this point.[3]

In an article titled “Compensation Doesn’t Drive Motivation,” author Kevin Howell titles one of the sections “Compensation Isn’t Enough.”[4] And that’s a key point. Equitable compensation isn’t enough to drive high levels of motivation, it’s a minimum expectation. Forbes writer Ken Sundheim puts the compensation question in perspective, noting that research has shown that for employees to be motivated, basic minimums need to be met, including pay, working conditions and job security. Sundheim notes that “low compensation can not only hinder motivation and performance, but can actually create vengeful employees. When human beings feel they are being inadequately paid, they will tend to shift the majority of their focus on the unfairness of the situation.”[5]

The reality is that our desire to reduce complex questions to simple answers—for example, to identify the one factor or most important determinant of behavior—belies the complexity of human experience. For example, Maslow's Hierarchy of Needs illustrates that we are motivated by different things at different stages of our development. Given that there are five generations in the workforce, it's likely that employees will be at different levels of development. Economic and health factors can also determine where a person is in their development and what they value and therefore what motivates them. Finally, changes in the employee-employer relationship and the nature of work may affect employee expectations and what significance the work has to an employee. For example, if a business is engaging in transactional relationships with its alternate workforce, it is likely to find those relationships (motivation) is driven more by compensation than other factors. Finally, generational changes in attitudes toward work may also impact what one wants from an employer. For some, "work" is not their life's work, but a side hustle, so non-financial rewards may have less value. Finally, a reductionist view fails to account for income inequality. There are many people who don't need to work. Someone like Alphabet CEO Larry Page, who was paid a dollar in 2018 (but is worth over 54 billion)—and, indeed, many Google employees—are not going to be motivated by compensation. However, the common refrain that compensation doesn't drive motivation is simply not consistent with the financial realities of many Americans. In a specialized economy where we must purchase rather than provide for our own basic needs, we are all motivated by money to meet those basic needs.

A more accurate answer is that what motivates a person depends on their specific situation. As is true of benefits, understanding a compensation requires what drives human motivation requires an understanding of where each person is in terms of their financial well-being and professional career development. Just as employees expect a personalized approach to benefits, employers who recognize that employees have different preferences for different types of rewards—from cash to recognition to autonomy—will have a better chance of not only getting an employee's initial commitment but keeping that person onboard and motivated. Keeping employees "Hungry" should refer to a person's drive for achievement, curiosity, not a physical state of need. If Employers want to tap higher-level capabilities, they should ensure that employees aren't distracted by lower-level needs. Pay is an important general motivator, but it is not the end of the story.

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Contributors and Attributions

CHAPTER OVERVIEW

6: Interpret the influence of unions on compensation practices

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6.1: The Nature of Unions

Learning Objectives

1. Be able to discuss the history of labor unions.
2. Explain some of the reasons for a decline in union membership over the past sixty years.
3. Be able to explain the process of unionization and laws that relate to unionization.

A labor union, or union, is defined as workers banding together to meet common goals, such as better pay, benefits, or promotion rules. In the United States, 11.9 percent of American workers belong to a union, down from 20.1 percent in 1983[1]. In this section, we will discuss the history of unions, reasons for decline in union membership, union labor laws, and the process employees go through to form a union. First, however, we should discuss some of the reasons why people join unions.

People may feel their economic needs are not being met with their current wages and benefits and believe that a union can help them receive better economic prospects. Fairness in the workplace is another reason why people join unions. They may feel that scheduling, vacation time, transfers, and promotions are not given fairly and feel that a union can help eliminate some of the unfairness associated with these processes. Let's discuss some basic information about unions before we discuss the unionization process.

History and Organization of Unions

Trade unions were developed in Europe during the Industrial Revolution, when employees had little skill and thus the entirety of power was shifted to the employer. When this power shifted, many employees were treated unfairly and underpaid. In the United States, unionization increased with the building of railroads in the late 1860s. Wages in the railroad industry were low and the threat of injury or death was high, as was the case in many manufacturing facilities with little or no safety laws and regulations in place. As a result, the Brotherhood of Locomotive Engineers and several other brotherhoods (focused on specific tasks only, such as conductors and brakemen) were formed to protect workers' rights, although many workers were fired because of their membership.

Labor Union AFL-CIO Perspective

A video from the AFL-CIO shows a history of labor unions, from its perspective.

The first local unions in the United States were formed in the eighteenth century, in the form of the National Labor Union (NLU).

The National Labor Union, formed in 1866, paved the way for other labor organizations. The goal of the NLU was to form a national labor federation that could lobby government for labor reforms on behalf of the labor organizations. Its main focus was to limit the workday to eight hours. While the NLU garnered many supporters, it excluded Chinese workers and only made some attempts to defend the rights of African-Americans and female workers. The NLU can be credited with the eight-hour workday, which was passed in 1862. Because of a focus on government reform rather than collective bargaining, many workers joined the Knights of Labor in the 1880s.

The Knights of Labor started as a fraternal organization, and when the NLU dissolved, the Knights grew in popularity as the labor union of choice. The Knights promoted the social and cultural spirit of the worker better than the NLU had. It originally grew as a labor union for coal miners but also covered several other types of industries. The Knights of Labor initiated strikes that were successful in increasing pay and benefits. When this occurred, membership increased. After only a few years, though, membership declined because of unsuccessful strikes, which were a result of a too autocratic structure, lack of organization, and poor management. Disagreements between members within the organization also caused its demise.

The American Federation of Labor (AFL) was formed in 1886, mostly by people who wanted to see a change from the Knights of Labor. The focus was on higher wages and job security. Infighting among union members was minimized, creating a strong organization that still exists today. In the 1930s, the Congress of Industrial Organizations (CIO) was formed as a result of political differences in the AFL. In 1955, the two unions joined together to form the AFL-CIO.

Currently, the AFL-CIO is the largest federation of unions in the United States and is made up of fifty-six national and international unions. The goal of the AFL-CIO isn't to negotiate specific contracts for employees but rather to support the efforts of local unions throughout the country.

Currently in the United States, there are two main national labor unions that oversee several industry-specific local unions. There are also numerous independent national and international unions that are not affiliated with either national union:

1. AFL-CIO: local unions include Airline Pilots Association, American Federation of Government Employees, Associated Actors of America, and Federation of Professional Athletes
2. CTW (Change to Win Federation): includes the Teamsters, Service Employees International Union, United Farm Workers of America, and United Food and Commercial Workers
3. Independent unions: Directors Guild of America, Fraternal Order of Police, Independent Pilots Association, Major League Baseball Players Association

The national union plays an important role in legislative changes, while the local unions focus on collective bargaining agreements and other labor concerns specific to the area. Every local union has a **union steward** who represents the interests of union members. Normally, union stewards are elected by their peers.

A national union, besides focusing on legislative changes, also does the following:

1. Lobbies in government for worker rights laws

2. Resolves disputes between unions

3. Helps organize national protests

4. Works with allied organizations and sponsors various programs for the support of unions

For example, in 2011, the national Teamsters union organized demonstrations in eleven states to protest the closing of an Ontario, California, parts distribution center. Meanwhile, Teamster Local 495 protested at the Ontario plant[2].

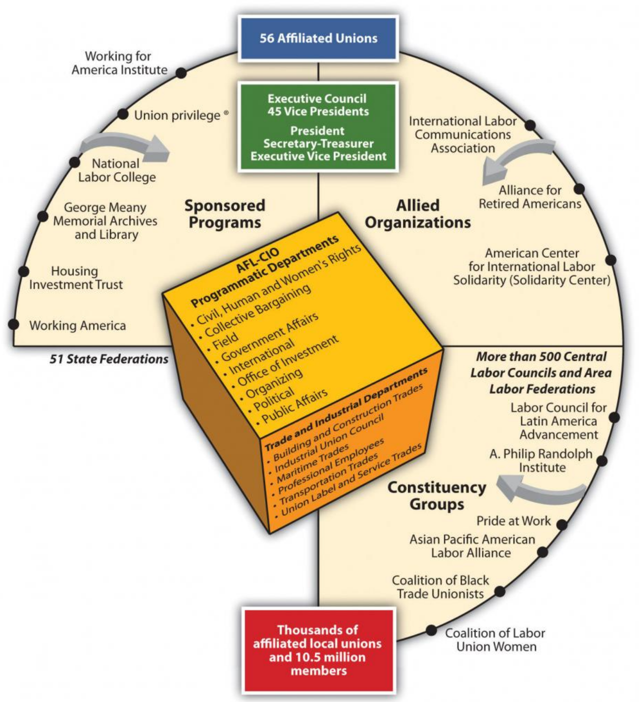

Figure 6.1.1: The Complicated Structure of AFL-CIO. Source: AFL-CIO. Discussed in detail at https://aflcio.org/about-us/our-unions-and-allies

Current Union Challenges

The labor movement is currently experiencing several challenges, including a decrease in union membership, globalization, and employers' focus on maintaining nonunion status. As mentioned in the opening of this section, the United States has seen a steady decline of union membership since the 1950s. In the 1950s, 36 percent of all workers were unionized (Friedman, 2010), as opposed to just over 11 percent today.

Human Resource Recall

When you are hired for your first job or your next job, do you think you would prefer to be part of a union or not?

Claude Fischer, a researcher from University of California Berkeley, believes the shift is cultural. His research says the decline is a result of American workers preferring individualism as opposed to collectivism (Fischer, 2010). Other research says the decline of unions is a result of globalization, and the fact that many jobs that used to be unionized in the manufacturing arena have now moved overseas. Other reasoning points to management, and that its unwillingness to work with unions has caused the decline in membership. Others suggest that unions are on the decline because of themselves. Past corruption, negative publicity, and hard-line tactics have made joining a union less favorable.

To fully understand unions, it is important to recognize the global aspect of unions. Statistics on a worldwide scale show unions in all countries declining but still healthy in some countries. For example, in eight of the twenty-seven European Union member states, more than half the working population is part of a union. In fact, in the most populated countries, unionization rates are still at three times the unionization rate of the United States (Federation of European Employers, 2011). Italy has a unionization rate of 30 percent of all workers, while the UK has 29 percent, and Germany has a unionization rate of 27 percent.

In March 2011, Wisconsin governor Scott Walker proposed limiting the collective bargaining rights of state workers to save a flailing budget. Some called this move “union busting” and said this type of act is illegal, as it takes away the basic rights of workers. The governor defended his position by saying there is no other choice, since the state is in a budget crisis. Other states such as Ohio are considering similar measures. Whatever happens, there is a clear shift for unions today.

Globalization is also a challenge in labor organizations today. As more and more goods and services are produced overseas, unions lose not only membership but union values in the stronghold of worker culture. As globalization has increased, unions have continued to demand more governmental control but have been only somewhat successful in these attempts. For example, free trade agreements such as the North American Free Trade Agreement (NAFTA) have made it easier and more lucrative for companies to manufacture goods overseas. For example, La-Z-Boy and Whirlpool closed production facilities in Dayton and Cleveland, Ohio, and built new factories in Mexico to take advantage of cheaper labor and less stringent environmental standards. Globalization creates options for companies to produce goods wherever they think is best to produce them. As a result, unions are fighting the globalization trend to try and keep jobs in the United States.

There are a number of reasons why companies do not want unions in their organizations, which we will discuss in greater detail later. One of the main reasons, however, is increased cost and less management control. As a result, companies are on a quest to maintain a union-free work environment. In doing so, they try to provide higher wages and benefits so workers do not feel compelled to join a union. Companies that want to stay union free constantly monitor their retention strategies and policies.

Labor Union Laws

The **Railway Labor Act (RLA)** of 1926 originally applied to railroads and in 1936 was amended to cover airlines. The act received support from both management and unions. The goal of the act is to ensure no disruption of interstate commerce. The main provisions of the act include alternate dispute resolution, arbitration, and mediation to resolve labor disputes. Any dispute must be resolved in this manner before a strike can happen. The RLA is administered by the National Mediation Board (NMB), a federal agency, and outlines very specific and detailed processes for dispute resolution in these industries.

The **Norris-LaGuardia Act** of 1932 (also known as the anti-injunction bill), barred federal courts from issuing injunctions (a court order that requires a party to do something or refrain from doing something) against nonviolent labor disputes and barred employers from interfering with workers joining a union. The act was a result of common **yellow-dog contracts**, in which a worker agreed not to join a union before accepting a job. The Norris-LaGuardia Act made yellow-dog contracts unenforceable in courts and established that employees were free to join unions without employer interference.

In 1935, the **Wagner Act** (sometimes called the National Labor Relations Act) was passed, changing the way employers can react to several aspects of unions. The Wagner Act had a few main aspects:

1. Employers must allow freedom of association and organization and cannot interfere with, restrain, or coerce employees who form a union.
2. Employers may not discriminate against employees who form or are part of a union, or those who file charges.
3. An employer must bargain collectively with representation of a union.

The **National Labor Relations Board (NLRB)** oversees this act, handling any complaints that may arise from the act. For example, in April 2011, the NLRB worked with employees at Ozburn-Hessey Logistics in Tennessee after they had been fired because of their involvement in forming a union. The company was also accused of interrogating employees about their union activities and threatened employees with loss of benefits should they form a union. The NLRB utilized their attorney to fight on behalf of the employees, and a federal judge ordered the company to rehire the fired employees and also to desist in other antiunion activities[3].

Figure 6.1.2: The Taft-Hartley Act prevents certain types of strikes, even in unionized companies. Michael Fleshman – fastfoodstrike! – CC BY-NC 2.0

The **Taft-Hartley Act** also had major implications for unions. Passed in 1947, Taft-Hartley amended the Wagner Act. The act was introduced because of the upsurge of strikes during this time period. While the Wagner Act addressed unfair labor practices on the part of the company, the Taft-Hartley Act focused on unfair acts by the unions. For example, it outlawed strikes that were not authorized by the union, called **wildcat strikes**. It also prohibited **secondary actions** (or secondary boycotts) in which one union goes on strike in sympathy for another union. The act allowed the executive branch of the federal government to disallow a strike should the strike affect national health or security. One of the most famous injunctions was made by President Ronald Reagan in 1981. Air traffic controllers had been off the job for two days despite their no-strike oath, and Reagan ordered all of them (over eleven thousand) discharged because they violated this federal law.

The **Landrum Griffin Act**, also known as the Labor Management Reporting and Disclosure (LMRDA) Act, was passed in 1959. This act required unions to hold secret elections, required unions to submit their annual financial reports to the U.S. Department of Labor, and created standards governing expulsion of a member from a union. This act was created because of racketeering charges and corruptions charges by unions. In fact, investigations of the Teamsters Union found they were linked to organized crime, and the Teamsters were banned from the AFL-CIO. The goal of this act was to regulate the internal functioning of unions and to combat abuse of union members by union leaders.

Table 6.1.1 Major Acts Regarding Unions, at a Glance

Railway Labor Act	• Covers railroad and airlines • Alternate dispute resolution methods instead of striking for these two industries
Norris-LaGuardia Act	• As a result of yellow-dog contracts • Barred federal courts from issuing injunctions against nonviolent labor disputes
Wagner Act	• Allowed for freedom to join a union without interference • May not discriminate against union employees • Set collective bargaining rules
Taft-Hartley Act	• Amended Wagner Act • Focus was on unfair practices by the union

Landrum-Friffing Act	• Required unions to hold secret elections • Financial reporting of unions required

The Unionization Process

There are one of two ways in which a unionization process can begin. First, the union may contact several employees and discuss the possibility of a union, or employees may contact a union on their own. The union will then help employees gather signatures to show that the employees want to be part of a union. To hold an election, the union must show signatures from over 30 percent of the employees of the organization.

Table 6.1.2: The Unionization Process

Employee Dissatisfaction	• Union contacts employees or employees contact union
Initial Organization Meeting	• Initial meeting with union to gather employee support.
Signatures	• Must have 30% of employee signatures to move forward with unionization process.
Secret Ballot Election or Card Check Method	• Once 30% of signatures are gathered, a secret ballot election is administered by the National Labor Relations Board (if the company does not accept the card check method).
Voting and Contract	• If the vote is “yes” (51% majority), the National Labor Relations Board certifies the union as the legal bargaining representative of the employees.

Once the signatures are gathered, the National Labor Relations Board is petitioned to move forward with a secret-ballot election. An alternative to the secret-ballot election is the card check method, in which the union organizer provides the company with authorization cards signed by a simple majority (half plus one). The employer can accept the cards as proof that the employees desire a union in their organization. The NLRB then certifies the union as the employees’ collective bargaining representative.

If the organization does not accept the card check method as authorization for a union, the second option is via a secret ballot. Before this method is used, a petition must be filed by the NLRB, and an election is usually held two months after the petition is filed. In essence, the employees vote whether to unionize or not, and there must be a simple majority (half plus one). The NLRB is responsible for election logistics and counting of ballots. Observers from all parties can be present during the counting of votes. Once votes are counted, a decision on unionization occurs, and at that time, the collective bargaining process begins.

Once the NLRB is involved, there are many limits as to what the employer can say or do during the process to prevent unionization of the organization. It is advisable for HR and management to be educated on what can legally and illegally be said during this process. It is illegal to threaten or intimidate employees if they are discussing a union. You cannot threaten job, pay, or benefits loss as a result of forming a union. Figure 6.1.1 includes information on what should legally be avoided if employees are considering unionization.

Figure 6.1.1: Things That Shouldn’t Be Said to Employees during a Unionization Process. (CC-BY-NC-SA This work)

Obviously, it is in the best interest of the union to have as many members as possible. Because of this, unions may use many tactics during the organizing process. For example, many unions are also politically involved and support candidates who they feel best represent labor. They provide training to organizers and sometimes even encourage union supporters to apply for jobs in nonunion environments to actively work to unionize other employees when they are hired. This practice is called **union salting**. Unions, especially on the national level, can be involved in corporate campaigns that boycott certain products or companies because of their labor practices. The United Food and Commercial Workers (UFCW), for example, has a "Wake Up Walmart Campaign" that targets the labor practices of this organization.

Strategies Companies Use to Avoid Unionization

Most organizations feel the constraints of having a union organization are too great. It affects the cost to the organization and operation efficiency. Collective bargaining at times can put management at odds with its employees and cost more to produce products and services. Ideally, companies will provide safe working conditions, fair pay, and benefits so the employees do not feel they need to form a union. There are three main phases of unionization:

1. Phase 1: Your organization is union free and there is little or no interest in unionizing.
2. Phase 2: You learn that some employees are discussing unionization or you learn about specific attempts by the union to recruit employees.
3. Phase 3: You receive a petition from the National Labor Relations Board filed by a union requesting a unionization vote.

Because of increased costs and operational efficiency, it is normally in a company's best interest to avoid unionization. While in phase 1, it is important to review employee relations programs including pay, benefits, and other compensation. Ensure the compensation plans are fair so employees feel fairly treated and have no reason to seek the representation of a union.

Despite your best efforts, you could hear of unionization in your organization. The goal here is to prevent the union from gaining support to ask for a National Labor Relations Board election. Since only 30 percent of employees need to sign union cards for a vote to take place, this phase to avoid unionization is very important. During this time, HR professionals and managers should respond to the issues the employees have and also develop a specific strategy on how to handle the union vote, should it get that far.

In phase 3, familiarization with all the National Labor Relations Board rules around elections and communications is important. With this information, you can organize meetings to inform managers on these rules. At this time, you will likely want to draw up an antiunion campaign and communicate that to managers, but also make sure it does not violate laws. To this end, develop specific strategies to encourage employees to vote "no" for the union. Some of the arguments that might be used include talking with the employee and mentioning the following:

1. Union dues are costly.
2. Employees could be forced to go on strike.
3. Employees and management may no longer be able to discuss matters informally and individually.
4. Unionization can create more bureaucracy within the company.
5. Individual issues may not be discussed.
6. Many decisions within a union, such as vacation time, are based on seniority only.

With unionization in decline, it is likely you may never need to handle a new union in your organization. However, organizations such as Change to Win are in the process of trying to increase union membership. This organization has four affiliated unions, with a goal to strengthen the labor movement. Teamsters, United Food and Commercial Workers, United Farm Workers, and Service Employees International Union are all unions affiliated with this organization (Change to Win, 2011). The next few years will be telling as to the fate of unions in today's organizations.

Fortune 500 Focus

Perhaps no organization is better known for its antiunion stance than Walmart. Walmart has over 3,800 stores in the United States and over 4,800 internationally with $419 billion in sales[4]. Walmart employs more than 2 million associates worldwide[4]. The billions of dollars Walmart earns do not immunize the company to trouble. In 2005, the company's vice president, Tom Coughlin, was forced to resign after admitting that between $100,000 and $500,000 was spent for undeclared purposes, but it was eventually found that the money was spent to keep the United Food and Commercial Workers union (UFCW) out of Walmart (Los Angeles Times Wire Services, 2011) (he was found guilty and sentenced to two years of house arrest).

Other claims surrounding union busting are the closing of stores, such as the Walmart Tire and Lube Express in Gatineau, Quebec (UFCW Canada, 2011), when discussions of unionization occurred. Other reports of union busting include the accusation that company policy requires store managers to report rumors of unionizing to corporate headquarters. Once the report is made, all labor decisions for that store are handled by the corporate offices instead of the store manager. According to labor unions in the United States, Walmart is willing to work with international labor unions but continues to fiercely oppose unionization in the United States. In one example, after butchers at a Jacksonville, Texas, Walmart voted to unionize, Walmart eliminated all US meat-cutting departments.

A group called OUR Walmart (Organization United for Respect), financed by the United Food and Commercial Workers* (UFCW) union, has stemmed from the accusations of union busting. Walmart spokesperson David Tovar says he sees the group as a Trojan horse assembled by labor organizations to lay the groundwork for full-fledged unionization and seek media attention to fulfill their agenda. While the organization's activities may walk a fine line between legal and illegal union practices under the Taft-Hartley Act, this new group will certainly affect the future of unionization at Walmart in its US stores.

*Note: UFCW was part of the AFL-CIO until 2005 and now is an independent national union.

The Impact of Unions on Organizations

You may wonder why organizations are opposed to unions. As we have mentioned, since union workers do receive higher wages, this can be a negative impact on the organization. Unionization also impacts the ability of managers to make certain decisions and limits their freedom when working with employees. For example, if an employee is constantly late to work, the union contract will specify how to discipline in this situation, resulting in little management freedom to handle this situation on a case-by-case basis. In 2010, for example, the Art Institute of Seattle faculty filed signatures and voted on unionization[5]. Some of the major issues were scheduling issues and office space, not necessarily pay and benefits. While the particular National Labor Relations Board vote was no to unionization, a yes vote could have given less freedom to management in scheduling, since scheduling would be based on collective bargaining contracts. Another concern about unionization for management is the ability to promote workers. A union contract may stipulate certain terms (such as seniority) for promotion, which means the manager has less control over the employees he or she can promote.

Section 12.3 and Section 12.4 discuss the collective bargaining and grievance processes.

Key Takeaways

- Union membership in the United States has been slowly declining. Today, union membership consists of about 11.9 percent of the workforce, while in 1983 it consisted of 20 percent of the workforce.
- The reasons for decline are varied, depending on whom you ask. Some say the moving of jobs overseas is the reason for the decline, while others say unions' hard-line tactics put them out of favor.
- Besides declining membership, union challenges today include globalization and companies' wanting a union-free workplace.
- The United States began its first labor movement in the 1800s. This was a result of low wages, no vacation time, safety issues, and other issues.
- Many labor organizations have disappeared, but the *American Federation of Labor (AFL)* still exists today, although it merged with the *Congress of Industrial Organizations (CIO)* and is now known as the AFL-CIO. It is the largest labor union and represents local labor unions in a variety of industries.
- The United States has a low number of union members compared with other countries. Much of Europe, for example, has over 30 percent of their workforce in labor unions, while in some countries as much as 50 percent of the workforce are members of a labor union.
- Legislation has been created over time to support both labor unions and the companies who have labor unions. The *Railway Labor Act* applies to airlines and railroads and stipulates that employees may not strike until they have gone through an extensive dispute resolution process. The *Norris-LaGuardia Act* made *yellow-dog contracts* illegal and barred courts from issuing injunctions.
- The *Wagner Act* was created to protect employees from retaliation should they join a union. The *Taft-Hartley Act* was developed to protect companies from unfair labor practices by unions.
- The *National Labor Relations Board* is the overseeing body for labor unions, and it handles disputes between companies as well as facilitates the process of new labor unions in the developing stages. Its job is to enforce both the Wagner Act and the Taft-Hartley Act.
- The *Landrum Griffin Act* was created in 1959 to combat corruption in labor unions during this time period.
- To form a union, the organizer must have signatures from 30 percent of the employees. If this occurs, the National Labor Relations Board will facilitate a card check to determine more than 50 percent of the workforce at that company is in agreement

with union representation. If the company does not accept this, then the NLRB holds secret elections to determine if the employees will be unionized. A collective bargaining agreement is put into place if the vote is yes.
- Companies prefer to not have unions in their organizations because it affects costs and operational productivity. Companies will usually try to prevent a union from organizing in their workplace.
- Managers are impacted when a company does unionize. For example, management rights are affected, and everything must be guided by the contract instead of management prerogative.

Exercises

1. Visit the National Labor Relations Board website. View the "weekly case summary" and discuss it in at least two paragraphs, stating your opinion on this case.
2. Do you agree with unionization within organizations? Why or why not? List the advantages and disadvantages of unions to the employee and the company.

[1]"Union Members: 2010," Bureau of Labor Statistics, US Department of Labor, news release, January 21, 2011, accessed April 4, 2011, http://www.bls.gov/news.release/pdf/union2.pdf.

[2]"Teamsters Escalate BMW Protests across America," PR Newswire, August 2, 2011, accessed August 15, 2011, http://www.teamster.org/content/teamsters-escalate-bmw-protests-across-america.

[3]"Federal Judge Orders Employer to Reinstate Three Memphis Warehouse Workers and Stop Threatening Union Supporters While Case Proceeds at NLRB," Office of Public Affairs, National Labor Relations Board, news release, April 7, 2011, accessed April 7, 2011, www.nlrb.gov/news/federal-judge-orders-employer-reinstate-three-memphis-warehouse-workers- and-stop-threatening-un.

[4]"Investors," Walmart Corporate, 2011, accessed August 15, 2011, http://investors.walmartstores.com/phoenix.zhtml?c=112761&p=irol-irhome.

[5]"Union Push in For-Profit Higher Ed," *Inside Higher Ed*, May 24, 2010, accessed August 15, 2011, http://www.insidehighered.com/news/2010/05/24/union.

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6.2: Monopsony and the Minimum Wage

Learning Objective

1. Compare the impact of a minimum wage on employment in the case where the labor market is perfectly competitive to the case of a monopsony labor market.
2. Discuss the debate among economists concerning the impact of raising the minimum wage.

We have seen that wages will be lower in monopsony than in otherwise similar competitive labor markets. In a competitive market, workers receive wages equal to their *MRP*s. Workers employed by monopsony firms receive wages that are less than their *MRP*s. This fact suggests sharply different conclusions for the analysis of minimum wages in competitive versus monopsony conditions.

In a competitive market, the imposition of a minimum wage above the equilibrium wage necessarily reduces employment, as we learned in the chapter on perfectly competitive labor markets. In a monopsony market, however, a minimum wage above the equilibrium wage could *increase* employment at the same time as it boosts wages!

Figure $6.2.1$ shows a monopsony employer that faces a supply curve, *S*, from which we derive the marginal factor cost curve, *MFC*. The firm maximizes profit by employing L_m units of labor and paying a wage of $4 per hour. The wage is below the firm's *MRP*.

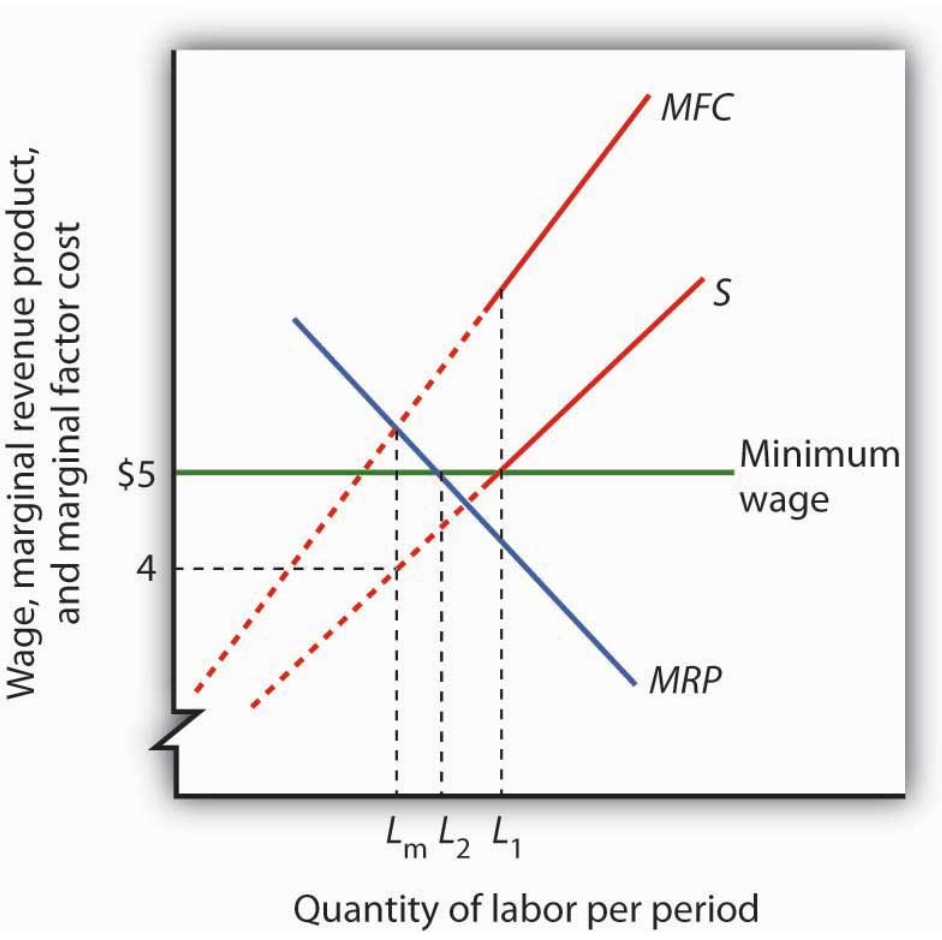

Figure $6.2.1$: Minimum Wage and Monopsony A monopsony employer faces a supply curve *S*, a marginal factor cost curve *MFC*, and a marginal revenue product curve *MRP*. It maximizes profit by employing L_m units of labor and paying a wage of $4 per hour. The imposition of a minimum wage of $5 per hour makes the dashed sections of the supply and *MFC* curves irrelevant. The marginal factor cost curve is thus a horizontal line at $5 up to L_1 units of labor. *MRP* and *MFC* now intersect at L_2 so that employment increases.

Now suppose the government imposes a minimum wage of \$5 per hour; it is illegal for firms to pay less. At this minimum wage, L_1 units of labor are supplied. To obtain any smaller quantity of labor, the firm must pay the minimum wage. That means that the section of the supply curve showing quantities of labor supplied at wages below \$5 is irrelevant; the firm cannot pay those wages. Notice that the section of the supply curve below \$5 is shown as a dashed line. If the firm wants to hire more than L_1 units of labor, however, it must pay wages given by the supply curve.

Marginal factor cost is affected by the minimum wage. To hire additional units of labor up to L_1, the firm pays the minimum wage. The additional cost of labor beyond L_1 continues to be given by the original *MFC* curve. The *MFC* curve thus has two segments: a horizontal segment at the minimum wage for quantities up to L_1 and the solid portion of the *MFC* curve for quantities beyond that.

The firm will still employ labor up to the point that *MFC* equals *MRP*. In the case shown in Figure 14.9, that occurs at L_2. The firm thus increases its employment of labor in response to the minimum wage. This theoretical conclusion received apparent empirical validation in a study by David Card and Alan Krueger that suggested that an increase in New Jersey's minimum wage may have increased employment in the fast food industry. That conclusion became an important political tool for proponents of an increase in the minimum wage. The validity of those results has come under serious challenge, however, and the basic conclusion that a higher minimum wage would increase unemployment among unskilled workers in most cases remains the position of most economists. The discussion in the Case in Point summarizes the debate.

Key Takeaways

- In a competitive labor market, an increase in the minimum wage reduces employment and increases unemployment.
- A minimum wage could increase employment in a monopsony labor market at the same time it increases wages.
- Some economists argue that the monopsony model characterizes all labor markets and that this justifies a national increase in the minimum wage.
- Most economists argue that a nationwide increase in the minimum wage would reduce employment among low-wage workers.

Try It!

Using the data in Note 14.5 "Try It!", suppose a minimum wage of \$40 per day is imposed. How will this affect the firm's use of labor?

Case in Point: The Monopsony-Minimum Wage Controversy

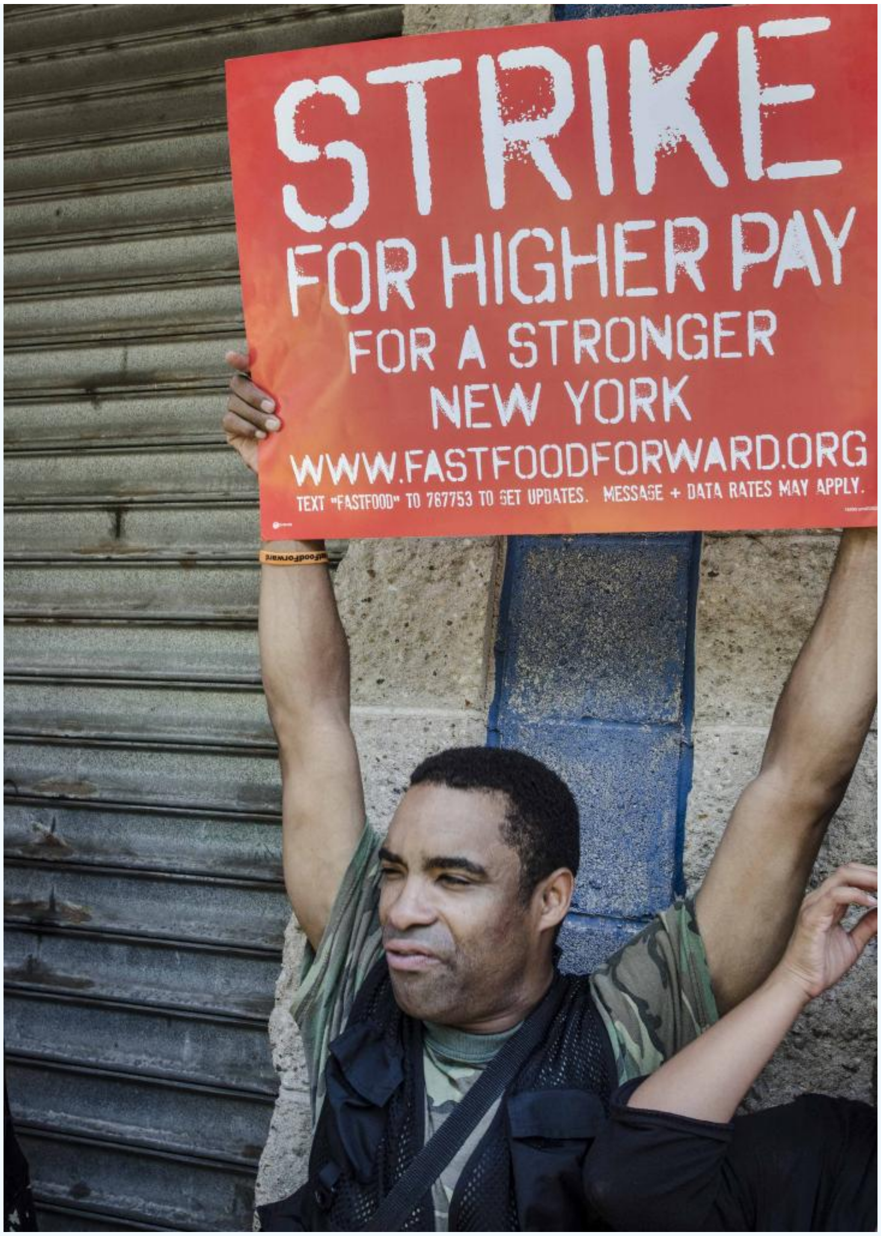

Figure 6.2.2: Annette Bernhardt – Fast Food Strikes, NYC, July 2013 – CC BY-SA 2.0.

While the imposition of a minimum wage on a monopsony employer could increase employment and wages at the same time, the possibility is generally regarded as empirically unimportant, given the rarity of cases of monopsony power in labor markets. However, some studies have found that increases in the minimum wage have led to either increased employment or to no significant reductions in employment. These results appear to contradict the competitive model of demand and supply in the labor market, which predicts that an increase in the minimum wage will lead to a reduction in employment and an increase in unemployment.

The study that sparked the controversy was an analysis by David Card and Alan Krueger of employment in the fast food industry in Pennsylvania and New Jersey. New Jersey increased its minimum wage to $5.05 per hour in 1992, when the national minimum wage was $4.25 per hour. The two economists surveyed 410 fast food restaurants in the Burger King, KFC, Roy Rogers, and Wendy’s chains just before New Jersey increased its minimum and again 10 months after the increase.

There was no statistically significant change in employment in the New Jersey franchises, but employment fell in the Pennsylvania franchises. Thus, employment in the New Jersey franchises “rose” relative to employment in the Pennsylvania franchises. Card and

Krueger’s results were widely interpreted as showing an increase in employment in New Jersey as a result of the increase in the minimum wage there.

Do minimum wages reduce employment or not? Some economists interpreted the Card and Krueger results as demonstrating widespread monopsony power in the labor market. Economist Alan Manning notes that the competitive model implies that a firm that pays a penny less than the market equilibrium wage will have zero employees. But, Mr. Manning notes that there are non-wage attributes to any job that, together with the cost of changing jobs, result in individual employers facing upward-sloping supply curves for labor and thus giving them monopsony power. And, as we have seen, a firm with monopsony power may respond to an increase in the minimum wage by increasing employment.

The difficulty with implementing this conclusion on a national basis is that, even if firms do have a degree of monopsony power, it is impossible to determine just *how much* power any one firm has and by how much the minimum wage could be increased for each firm. As a result, even if it were true that firms had such monopsony power, it would not follow that an increase in the minimum wage would be appropriate.

Even the finding that an increase in the minimum wage may not reduce employment has been called into question. First, there are many empirical studies that suggest that increases in the minimum wage do reduce employment. For example, a recent study of employment in the restaurant industry by Chicago Federal Reserve Bank economists Daniel Aaronson and Eric French concluded that a 10% increase in the minimum wage would reduce employment among unskilled restaurant workers by 2 to 4%. This finding was more in line with other empirical work. Further, economists point out that jobs have nonwage elements. Hours of work, working conditions, fellow employees, health insurance, and other fringe benefits of working can all be adjusted by firms in response to an increase in the minimum wage. Dwight Lee, an economist at the University of Georgia, argues that as a result, an increase in the minimum wage may not reduce employment but may reduce other fringe benefits that workers value more highly than wages themselves. So, an increase in the minimum wage may make even workers who receive higher wages worse off. One indicator that suggests that higher minimum wages may reduce the welfare of low income workers is that participation in the labor force by teenagers has been shown to fall as a result of higher minimum wages. If the opportunity to earn higher wages reduces the number of teenagers seeking those wages, it may indicate that low-wage work has become less desirable.

In short, the possibility that higher minimum wages might not reduce employment among low-wage workers does not necessarily mean that higher minimum wages improve the welfare of low income workers. Evidence that casts doubt on the proposition that higher minimum wages reduce employment does not remove many economists’ doubt that higher minimum wages would be a good policy.

Sources: Daniel Aaronson and Eric French, “Employment Effects of the Minimum Wage,” *Journal of Labor Economics*, January 2007, 25(1), 167–200; David Card and Alan B. Krueger, “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania,” *American Economic Review*, 84 (1994): 772–93; Chris Dillow, “Minimum Wage Myths,” *Economic Affairs*, 20(1) (March 2000): 47–52; Dwight R. Lee, “The Minimum Wage Can Harm Workers by Reducing Unemployment,” *Journal of Labor Research*, 25(4) (Fall 2004); Andrew Leigh, “Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment,” *The Australian Economic Review*, 36 (2003): 361–73; Andrew Leigh, “Employment Effects of Minimum Wages: Evidence from a Quasi-Experiment—Erratum,” *The Australian Economic Review*, 37(1): 102–5; Alan Manning, “Monopsony and the Efficiency of Labour Market Interventions,” *Labour Economics*, 11(2) (April 2004): 145–63; Walter J. Wessels, “Does the Minimum Wage Drive Teenagers Out of the Labor Force?” *Journal of Labor Research*, 26(1) (Winter 2005): 169–176.

Answer to Try It! Problem

The imposition of a minimum wage of $40 per day makes the *MFC* curve a horizontal line at $40, up to the *S* curve. In this case, the firm adds a fourth worker and pays the required wage, $40.

CHAPTER OVERVIEW

7: Discern the compensation needs of special groups, such as interns and temporary employees

7.1: Introduction

Matching Compensation with Core Values

As you sit down to review the compensation package your company offers, one thing that stands out is that your compensation package no longer matches the core values of your organization. When your organization merged five years ago with a similar firm that specializes in online shoe retailing, your company had to hire hundreds of people to keep up with growth. As a result—and what happens with many companies—the compensation plans are not revised and revisited as they should be. The core values your company adopted from the merging company focused on customer service, freedom to work where employees felt they could be most productive, and continuing education of employees, whether or not the education was related to the organization. The compensation package, providing the basic salary, health benefits, and 401(k) plans, seems a bit old-fashioned for the type of company yours has become.

After reviewing your company's strategic plan and your human resource management (HRM) strategic plan, you begin to develop a compensation plan that includes salary, health benefits, and 401(k) plans, but you feel it might be smart to better meet the needs of your employees by making some changes to these existing plans. For example, you are considering implementing a team bonus program for high customer service ratings and coverage for alternative forms of medicine, such as acupuncture and massage. Instead of guessing what employees would like to see in their compensation packages, you decide to develop a compensation survey to assess what benefits are most important to your employees. As you begin this task, you know it will be a lot of work, but it's important to the continued recruitment, retention, and motivation of your current employees.

7.2: Goals of a Compensation Plan

Learning Objectives

- Be able to explain the goals of a compensation plan.

So far, we have discussed the process for strategic plan development and the recruitment and selection process. The next aspect of HRM is to develop compensation plans that will help in the recruitment and retention of employees. This is the topic of this chapter.

Figure 7.2.1: The goal of a compensation plan is not only to attract people, but to retain them. johnhain – Pixabay – CC0 public domain.

Most of us, no matter how much we like our jobs, would not do them without a compensation package. When we think of compensation, often we think of only our paycheck, but compensation in terms of HRM is much broader. A compensation package can include pay, health-care benefits, and other benefits such as 401(k) plans, which will all be discussed in this chapter. Before we discuss specifics, you should be aware of courses and certifications that can be earned through the WorldatWork Society of Certified Professionals, specifically related to compensation (other certifications will be discussed in their respective chapters).

WorldatWork offers several certifications in the area of compensation:

- Certified Compensation Professional (CCP)
- Certified Benefits Professional (CBP)
- Certified Sales Compensation Professional (CSCP)
- Certified Executive Compensation Professional (CECP)

These certifications involve taking a multiple-choice exam online or at one of the WorldatWork testing locations. The exams test for knowledge, experience, and skills in each of the compensation certification areas and can be a valuable asset to you when applying for HR positions.

The certifications are based on many of the aspects of this chapter, including understanding the goals of compensation packages for employees, which is our focus for this section.

First, the compensation package should be positive enough to attract the best people for the job. An organization that does not pay as well as others within the same industry will likely not be able to attract the best candidates, resulting in a poorer overall company performance.

Once the best employees and talent come to work for your organization, you want the compensation to be competitive enough to motivate people to stay with your organization. Although we know that compensation packages are not the only thing that motivates people, compensation is a key component. We discuss other motivations in Chapter 7.

Third, compensation can be used to improve morale, motivation, and satisfaction among employees. If employees are not satisfied, this can result not only in higher turnover but also in poor quality of work for those employees who do stay. A proper compensation plan can also increase loyalty in the organization.

Pay systems can also be used to reward individual or team performance and encourage employees to work at their own peak performance. In fact, in the 2011 list of the Best Companies to Work For by *Fortune* magazine, all the companies who topped the list (SAS and Boston Consulting Group, for example) had satisfied employees—not only with their pay, but their entire benefits package[1].

With an appropriate pay system, companies find that customer service is better because employees are happier. In addition, having fairly compensated, motivated employees not only adds to the bottom line of the organization but also facilitates organizational growth and expansion. Motivated employees can also save the company money indirectly, by not taking sick days when the employee isn't really sick, and companies with good pay packages find fewer disability claims as well.

So far, our focus on HRM has been a strategic focus, and the same should be true for development of compensation packages. Before the package is developed for employees, it's key to understand the role compensation plays in the bottom line of the organization. For example, in 2010, the US military spent 22 percent of its budget on personnel salaries[2]. One-fifth of the total budget—or more—is not uncommon for most US organizations, depending on the industry. As a result, it is easy to see why the compensation plan should be an important aspect of the overall HRM strategic plan. The next few sections will detail the aspects of creating the right compensation packages: for your organization, including legal considerations.

Human Resource Recall

If you have had or currently have a job, do you feel the compensation plan motivated you? Why or why not?

Key Takeaways

- A compensation package is an important part of the overall strategic HRM plan, since much of the company budget is for employee compensation.
- A *compensation package* can include salary, bonuses, health-care plans, and a variety of other types of compensation.
- The goals of compensation are to attract people to work for your organization and to retain people who are already working in the organization.
- Compensation is also used to motivate employees to work at their peak performance and improve morale.
- Employees who are fairly compensated tend to provide better customer service, which can result in organizational growth and development.

Exercise

1. Visit a website that gives salary information for a variety of jobs, such as http://www.salary.com. Using the search box, type in your ideal job and research salary information. What is the median salary for the job you searched? What is the lowest salary you would be willing to accept for this job? At which point would you be completely satisfied with the pay for this job?

Footnotes

1. 100 Best Companies to Work For," *CNN Money*, accessed February 11, 2011, https://money.cnn.com/magazines/fortune/bestcompanies/2011/full_list/
2. US Department of Defense, *Financial Summary Tables*, May 2009, accessed February 11, 2011, https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2010/fy2010_summary_tables_whole.pdf.

7.3: Developing a Compensation Package

Learning Objectives

1. Be able to explain the internal and external considerations of compensation package development.
2. Know how to develop a compensation philosophy.

There are a few basic aspects of compensation packages we should discuss before moving into the specific aspects of compensation. These foundations can assist in the development of a compensation strategy that meets the goals of your organization and is in line with your strategic plan.

Before beginning work on your compensation packages, some analysis should be done to determine your organization's philosophy in regard to compensation. Before development of your compensation philosophies, there are some basic questions to address on your current compensation packages.

1. From the employee's perspective, what is a fair wage?
2. Are wages too high to achieve financial health in your organization?
3. Do managers and employees know and buy-into your compensation philosophy?
4. Does the pay scale reflect the importance of various job titles within the organization?
5. Is your compensation good enough to retain employees?
6. Are state and federal laws being met with your compensation package?
7. Is your compensation philosophy keeping in line with labor market changes, industry changes, and organizational changes?

Once these basic questions are addressed, we can see where we might have "holes" in our compensation package and begin to develop new philosophies in line with our strategic plan, which benefits the organization. Some possible compensation policies might include the following:

1. Are salaries higher or lower depending on the location of the business? For example, orthopedic surgeons are paid higher in the North Central states ($537,000) than in Hawaii ($250,000), according to the Medscape Physical report of 2011 (Miller, 2011). Reasons could include cost of living in the area and fewer qualified people in a given area, giving them leverage to ask for a higher salary.
2. Are salaries lower or higher than the average in your region or area? If the salary is lower, what other benefits will the employee receive to make up for this difference? For example, wages might not be as high, but offering flextime or free day care might offset the lower salary.
3. Should there be a specific pay scale for each position in the organization, or should salaries be negotiated on an individual basis? If there is no set pay scale, how can you ensure individual salary offers are fair and nondiscriminatory?
4. What balance of salary and other rewards, such as bonuses, should be part of your compensation package? For example, some organizations prefer to offer a lower salary, but through bonuses and profit sharing, the employee has the potential to earn more.
5. When giving raises, will the employee's tenure be a factor, or will pay increases be merit based only, or a combination of both?

Let's discuss some internal and external factors in determining compensation in more detail.

Internal and External Pay Factors

One major internal factor is the compensation strategy the company has decided to use. Sixty-two percent of organizations have a written, documented compensation policy (Scott, 2011).

Some organizations choose a market compensation policy, market plus, or market minus philosophy. A market compensation policy is to pay the going rate for a particular job, within a particular market based on research and salary studies. The organization that uses a market plus philosophy will determine the going rate and add a percentage to that rate, such as 5 percent. So if a particular job category median pays $57,000, the organization with a market plus of 5 percent philosophy will pay $59,850. A market minus philosophy pays a particular percentage less than the market; so in our example, if a company pays 5 percent less, the same job would pay $54,150. The University of Arizona, for example, posts its compensation philosophy on its website[1]:

> *In order to fulfill its mission, the University of Arizona shall maintain a compensation program directed toward attracting, retaining, and rewarding a qualified and diverse workforce. Within the boundaries of financial feasibility, employee compensation shall be*

> *externally competitive and internally equitable, and shall be based upon performance as recognized within the work unit.*

In addition to their compensation philosophy, the university lists compensation objectives, such as "average salaries will be targeted at the average salary levels of employees in comparable positions in our various labor markets." This is an example of a market compensation policy.

An example of an organization with a market plus philosophy is Cisco Systems, listed as one of the top-paying companies on *Fortune*'s annual list. For example, they pay $131,716 for software engineers, while at Yahoo! software engineers are paid an average of $101,669, using a market philosophy. The pay at Cisco reflects its compensation philosophy and objectives:

> *Cisco operates in the extremely competitive and rapidly changing high-technology industry. The Board's Compensation Committee believes that the compensation programs for the executive officers should be designed to attract, motivate, and retain talented executives responsible for the success of Cisco and should be determined within a framework based on the achievement of designated financial targets, individual contribution, customer satisfaction, and financial performance relative to that of Cisco's competitors. Within this overall philosophy, the Compensation Committee's objectives are to do the following:*
>
> *Offer a total compensation program that is flexible and takes into consideration the compensation practices of a group of specifically identified peer companies and other selected companies with which Cisco competes for executive talent*
> *Provide annual variable cash incentive awards that take into account Cisco's overall financial performance in terms of designated corporate objectives, as well as individual contributions and a measure of customer satisfaction*
>
> *Align the financial interests of executive officers with those of shareholders by providing appropriate long-term, equity-based incentives*

An example of an organization with a market minus philosophy is Whole Foods. The executive compensation for Whole Foods is a maximum of nineteen times the average store worker (or $608,000), very low by *Fortune* 500 executive pay standards, which average 343 times (Allen, 2011). According to John Mackey, Whole Foods CEO, paying on a market minus philosophy makes good business sense: "Fewer things harm an organization's morale more than great disparities in compensation. When a workplace is perceived as unfair and greedy, it begins to destroy the social fabric of the organization" (Hamner & McNichol, 2011). Another example of an organization with a market minus philosophy is Southwest Airlines. Despite the lower pay (and more hours), the organization boasts just a 1.4 percent turnover rate, which can be attributed not to pay but to the workplace culture and, as a result, loyalty to the company (Eggers, 2011).

There are many reasons why an organization would choose one philosophy over another. A market minus philosophy may tie into the company's core values, as in Whole Foods, or it may be because the types of jobs require an unskilled workforce that may be easier and less expensive to replace. A company may use a market plus philosophy because the industry's cutting-edge nature requires the best and the brightest.

Other internal pay factors might include the employer's ability to pay, the type of industry, and the value of the employee and the particular job to the organization. In addition, the presence of a union can lead to mandated pay scales. Unions are discussed in Chapter 8.

External pay factors can include the current economic state. For example, in June 2011, the US unemployment rate was 9.2 percent, which is quite high for the country. As a result of surplus workers, compensation may be reduced within organizations because of oversupply of workers. Inflation and cost of living in a given area can also determine compensation in a given market.

Once an organization has looked at the internal and external forces affecting pay, it can begin to develop a pay system within the organization. We discuss how to develop a pay system in "Types of Pay Systems".

Key Takeaways

- Before beginning work on a pay system, some general questions need to be answered. Important starting points include questions ranging from what is a fair wage from the employees' perspectives to how much can be paid but still retain financial health.
- After some pay questions are answered, a pay philosophy must be developed, based on internal and external factors. Some companies implement a market compensation philosophy, which pays the going market rate for a job. Other companies may decide to utilize a market plus philosophy, which pays higher than the average. A company could decide its pay philosophy is a market minus philosophy, which pays less than the market rate. For example, an organization may decide to pay lower salaries but offer more benefits.
- Once these tasks are done, the HR manager can then build a pay system that works for the size and industry of the organization.

Exercise

1. Think of your current organization or a past organization. What do you think their pay policy is/was? Describe and analyze whether you think it was or is effective. If you haven't worked before, perform an Internet search on pay policies and describe/analyze the pay policy of an organization.

[1]University of Arizona, "Compensation Philosophy," accessed July 23, 2011, www.hr.arizona.edu/compensation_philosophy.

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7.4: Types of Pay Systems

Learning Objectives

1. Explain types of job evaluation systems and their uses.
2. Be able to define and discuss the types of pay systems and factors determining the type of pay system used.
3. Know the laws relating to compensation.

Once you have determined your compensation strategy based on internal and external factors, you will need to evaluate jobs, develop a pay system, and consider pay theories when making decisions. Next, you will determine the mix of pay you will use, taking into consideration legal implications.

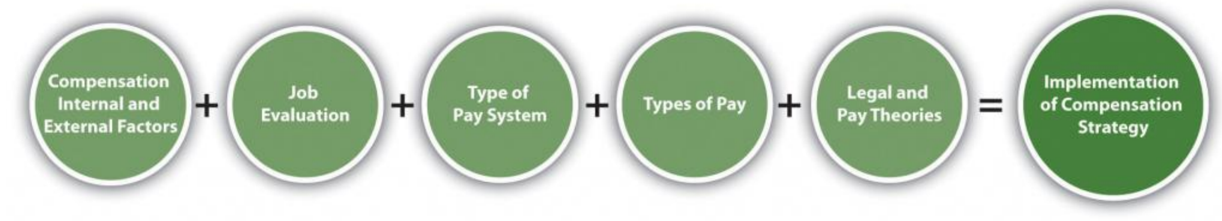

Figure 7.4.1: The Process for Implementing Compensation Strategy. (CC-BY-NC-SA This work)

Job Evaluation Systems

As mentioned when we discussed internal and external factors, the value of the job is a major factor when determining pay. There are several ways to determine the value of a job through job evaluation. Job evaluation is defined as the process of determining the relative worth of jobs to determine pay structure. Job evaluation can help us determine if pay is equitable and fair among our employees. There are several ways to perform a job evaluation. One of the simplest methods, used by smaller companies or within individual departments, is a job ranking system. In this type of evaluation, job titles are listed and ranked in order of importance to the organization. A paired comparison can also occur, in which individual jobs are compared with every other job, based on a ranking system, and an overall score is given for each job, determining the highest-valued job to the lowest-valued job. For example, in Table 7.4.1, four jobs are compared based on a ranking of 0, 1, or 2. Zero indicates the job is less important than the one being compared, 1 means the job is about the same, and 2 means the job is more important. When the scores are added up, it is a quick way to see which jobs are of more importance to the organization. Of course, any person creating these rankings should be familiar with the duties of all the jobs. While this method may provide reasonably good results because of its simplicity, it doesn't compare differences between jobs, which may have received the same rank of importance.

Table 7.4.1: Example of a Paired Comparison for a Job Evaluation

Job	Receptionist	Project Manager	Account Manager	Sales	Director
Receptionist	X	0	0	0	0 = 4th
Project Administrative Assistant	1	X	0	0	1 = 3rd
Account Manager	2	1	X	0	3 = 2nd
Sales Director	2	2	2	X	6 = 1st

Based on the paired ranking system, the sales director should have a higher salary than the project administrative assistant, because the ranking for that job is higher. Likewise, a receptionist should be paid less than the project administrative assistant because this job ranks lower.

In a **job classification system**, every job is classified and grouped based on the knowledge and skills required for the job, years of experience, and amount of authority for that job. The US military is perhaps the best known for this type of classification system. The navy, for example, has job classification codes, such as HM (hospitalman). Then the jobs are divided into specialties, such as HM-8483, the classification for surgical technologist, and HM-8451 for a hospitalman-X-ray technician. The federal government and most state governments use this type of system. Tied to each job are the basic function, characteristics, and typical work of that job classification, along with pay range data. A sample of a job classification system is shown in Table 7.4.2.

Table 7.4.2: Example of a Job Classification System at the University of Washington

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
7715	ACCELERATOR TECHNICIAN 1		SEIU Local 925 Clerical Nonsupervisory	B4	40	$2689	$3583	Y
7300	ACCOUNTANT 1		SEIU Local 925 Clerical Nonsupervisory	B4	40	$2689	$3583	Y
7301	ACCOUNTANT 2		SEIU Local 925 Clerical Nonsupervisory	B4	44	$2949	$3956	N
7302	ACCOUNTANT, SENIOR		SEIU Local 925 Clerical Nonsupervisory	B4	50	$3410	$4587	N
7011	ACCOUNTING SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	50	$3410	$4587	N
7045	ADMINISTRATIVE ASSISTANT A		SEIU Local 925 Clerical Nonsupervisory	B4	39	$2623	$3493	Y
7044	ADMINISTRATIVE ASSISTANT A-SUPV		SEIU Local 925 Clerical Supervisory	B4	41	$2751	$3667	Y
7046	ADMINISTRATIVE ASSISTANT B		SEIU Local 925 Clerical Supervisory	B4	42	$2816	$3763	Y
7080	ADMINISTRATIVE COORDINATOR		SEIU Local 925 Clerical Nonsupervisory	B4	37	$2506	$3325	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
7490	ADMISSIONS SPECIALIST		SEIU Local 925 Clerical Nonsupervisory	B4	41	$2751	$3667	Y
7583	AFFIRMATIVE ACTION/HUMAN RIGHTS ASST		SEIU Local 925 Clerical Nonsupervisory	B4	41	$2751	$3667	Y
8696	ALCOHOLISM THERAPIST 1		WFSE HMC	B0	56	$3507	$5021	Y
6119	ALCOHOLISM THERAPIST 2	359F	Classified Non-Union	C0	63	$3761	$5224	Y
6329	ANATOMIC PATHOLOGY LABORATORY LEAD	315H	Classified Non-Union	C0	73	$4154	$5771	Y
6328	ANATOMIC PATHOLOGY LABORATORY SUPERVISOR	315I	Classified Non-Union	C0	79	$4412	$6126	N
8146	ANATOMIC PATHOLOGY TECHNICIAN		SEIU Local 925-HMC Technical	B7	55	$3472	$4822	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
8326	ANATOMIC PATHOLOGY TECHNICIAN		SEIU LOCAL 925 Medical/Laboratory Tech	B7	55	$3472	$4822	Y
8145	ANATOMIC PATHOLOGY TECHNICIAN TRAINEE		SEIU Local 925-HMC Technical	B7	40	$2991	$4155	Y
8325	ANATOMIC PATHOLOGY TECHNICIAN TRAINEE		SEIU LOCAL 925 Medical/Laboratory Tech	B7	40	$2991	$4155	Y
8147	ANATOMIC PATHOLOGY TECHNOLOGIST		SEIU Local 925-HMC Technical	B7	66	$3874	$5383	Y
8327	ANATOMIC PATHOLOGY TECHNOLOGIST		SEIU LOCAL 925 Medical/Laboratory Tech	B7	66	$3874	$5383	Y
6313	ANESTHESIOLOGY TECHNICAL SERVICES SUPV	320H	Classified Non-Union	CA	61	$3686	$5277	N
6310	ANESTHESIOLOGY TECHNICIAN 1	320E	Classified Non-Union	CA	13	$2287	$3271	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
8711	ANESTHESIOLOGY TECHNICIAN 1		WFSE HMC	BA	10	$2219	$3271	Y
8312	ANESTHESIOLOGY TECHNICIAN 2		SEIU LOCAL 925 Medical/Laboratory Tech	BS	46	$3344	$4933	Y
8960	ANESTHESIOLOGY TECHNICIAN 2		1199NW-HMC Respiratory/Anesthesiology	BS	46	$3344	$4933	Y
6311	ANESTHESIOLOGY TECHNICIAN LEAD	320G	Classified Non-Union	CA	52	$3370	$4826	Y
8959	ANESTHESIOLOGY TECHNICIAN LEAD		1199NW-HMC Respiratory/Anesthesiology	BS	53	$3585	$5288	Y
7724	ANIMAL TECHNICIAN 1		SEIU Local 925 Clerical Nonsupervisory	B4	25	$1903	$2506	Y
7725	ANIMAL TECHNICIAN 2		SEIU Local 925 Clerical Nonsupervisory	B4	26	$1948	$2567	Y
7726	ANIMAL TECHNICIAN 3		SEIU Local 925 Clerical Nonsupervisory	B4	30	$2134	$2816	Y
4727	ANIMAL TECHNICIAN SUPERVISOR	525H	Classified Non-Union	C1	35	$2370	$3063	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
4658	ASSISTANT FACILITIES DESIGNER	540L	Classified Non-Union	C1	48	$3213	$4214	Y
8874	ASSISTANT STEAM ENGINEER		WFSE Skilled Trades	BL	46G	$3566	$4106	Y
8507	BAKER		WFSE Campuswide	BI	30	$2113	$2789	Y
8508	BAKER LEAD		WFSE Campuswide	BI	33	$2266	$2994	Y
4700	BIOMEDICAL ELECTRONICS TECHNICIAN 1	511E	Classified Non-Union	CA	54	$3438	$4924	Y
4701	BIOMEDICAL ELECTRONICS TECHNICIAN 2	511F	Classified Non-Union	CA	68	$3954	$5659	Y
4702	BIOMEDICAL ELECTRONICS TECHNICIAN 3	511G	Classified Non-Union	CA	78	$4368	$6249	Y
4703	BIOMEDICAL ELECTRONICS TECHNICIAN LEAD	511H	Classified Non-Union	CA	83	$4591	$6568	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
4704	BIOMEDICAL ELECTRONICS TECHNICIAN SUPV	511I	Classified Non-Union	CA	88	$4826	$6903	N
8875	BOILER OPERATOR		WFSE Skilled Trades	BL	42G	$3247	$3736	Y
7613	BOOK PRODUCTION COORDINATOR		SEIU Local 925 Clerical Nonsupervisory	B4	44	$2949	$3956	Y
7075	BOOKKEEPING MACHINE OPERATOR		SEIU Local 925 Clerical Nonsupervisory	B4	29	$2088	$2751	Y
7550	BROADCAST TECHNICIAN 1		SEIU Local 925 Clerical Nonsupervisory	B4	41	$2751	$3667	Y
7551	BROADCAST TECHNICIAN 2		SEIU Local 925 Clerical Nonsupervisory	B4	47	$3166	$4255	Y
7552	BROADCAST TECHNICIAN 3		SEIU Local 925 Clerical Nonsupervisory	B4	51	$3493	$4699	Y
7553	BROADCAST TECHNICIAN SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	55	$3856	$5186	N
7335	BUDGET ANALYST		SEIU Local 925 Clerical Nonsupervisory	B4	42	$2816	$3763	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
7336	BUDGET/FISCAL ANALYST		SEIU Local 925 Clerical Nonsupervisory	B4	46	$3093	$4154	N
7337	BUDGET/FISCAL ANALYST LEAD		SEIU Local 925 Clerical Nonsupervisory	B4	51	$3493	$4699	N
7339	BUDGET/FISCAL OPERATIONS SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	57	$4053	$5448	N
7338	BUDGET/FISCAL UNIT SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	54	$3763	$5059	N
7021	BUILDING SERVICES COORDINATOR		SEIU Local 925 Clerical Nonsupervisory	B4	33	$2289	$3023	Y
7022	BUILDING SERVICES SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	38	$2567	$3410	Y
5215	BUILDINGS AND GROUNDS SUPERVISOR A	598G	Classified Non-Union	C1	49	$3293	$4322	N
5216	BUILDINGS AND GROUNDS SUPERVISOR B	598H	Classified Non-Union	C1	55	$3819	$5010	N
7119	BUYER 1		SEIU Local 925 Clerical Nonsupervisory	B4	38	$2567	$3410	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
7120	BUYER 2		SEIU Local 925 Clerical Nonsupervisory	B4	44	$2949	$3956	Y
7122	BUYER 3		SEIU Local 925 Clerical Nonsupervisory	B4	49	$3325	$4472	N

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html (accessed September 14, 2011).

Another type of job evaluation system is the point-factor system, which determines the value of a job by calculating the total points assigned to it. The points given to a specific job are called compensable factors. These can range from leadership ability to specific responsibilities and skills required for the job. Once the compensable factors are determined, each is given a weight compared to the importance of this skill or ability to the organization. When this system is applied to every job in the organization, expected compensable factors for each job are listed, along with corresponding points to determine which jobs have the most relative importance within the organization. Tompkins County in New York uses a point-factor system. Some of their compensable factors include the following:

1. Knowledge
2. Autonomy
3. Supervision
4. Psychological demands
5. Interpersonal skills
6. Internal and external contacts

In this point-factor system, autonomy ranks the highest and is given a weight of twenty-nine, while knowledge is given a rate of twenty, for example. Each of the compensable factors has a narrative that explains how points should be distributed for each factor. In this system, one hundred points are given for knowledge for a bachelor's degree and two to three years of experience, and eighty points are given if an employee has an associate's degree or high school diploma and two to three years of experience. The points are then multiplied by the weight (for knowledge, the weight is twenty) to give a final score on that compensable factor. After a score is developed for each, the employee is placed on the appropriate pay level for his or her score, as illustrated in Figure 7.4.2.

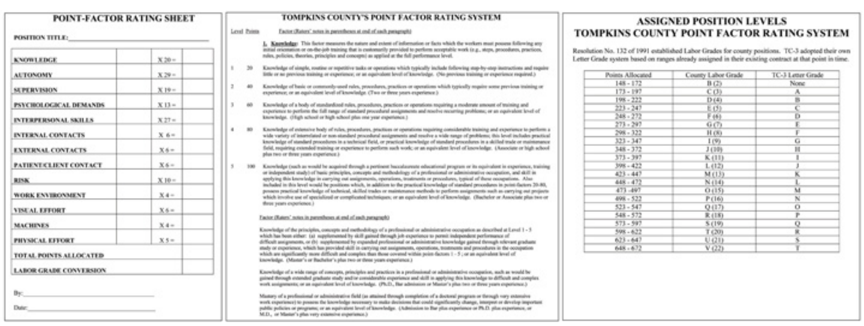

Figure 7.4.2: Example of a Point-Factor System. (CC-BY-NC-SA This work)

Another option for job evaluation is called the Hay profile method. This proprietary job evaluation method focuses on three factors called know-how, problem solving, and accountability. Within these factors are specific statements such as "procedural proficiency." Each of these statements is given a point value in each category of know-how, problem solving, and accountability. Then job descriptions are reviewed and assigned a set of statements that most accurately reflect the job. The point values for each of the statements are added for each job description, providing a quantitative basis for job evaluation and eventually, compensation. An advantage of this method is its quantitative nature, but a disadvantage is the expense of performing an elaborate job evaluation.

Pay Systems

Once you have performed a job evaluation, you can move to the third step, which we call pay grading. This is the process of setting the pay scale for specific jobs or types of jobs.

The first method to pay grade is to develop a variety of pay grade levels. Figure 7.4.3 shows an example. Then once the levels are developed, each job is assigned a pay grade. When employees receive raises, their raises stay within the range of their individual pay grade, until they receive a promotion that may result in a higher pay grade. The advantage of this type of system is fairness. Everyone performing the same job is within a given range and there is little room for pay discrimination to occur. However, since the system is rigid, it may not be appropriate for some organizations in hiring the best people. Organizations that operate in several cities might use a pay grade scale, but they may add percentages based on where someone lives. For example, the cost of living in Spokane, Washington, is much lower than in New York City. If an organization has offices in both places, it may choose to add a percentage pay adjustment for people living within a geographic area—for example, 10 percent higher in New York.

One of the downsides to pay grading is the possible lack of motivation for employees to work harder. They know even if they perform tasks outside their job description, their pay level or pay grade will be the same. This can incubate a stagnant environment. Sometimes this system can also create too many levels of hierarchy. For large companies, this may work fine, but smaller, more agile organizations may use other methods to determine pay structure. For example, some organizations have moved to a delayering and banding process, which cuts down the number of pay levels within the organization. General Electric delayered pay grades in the mid-1990s because it found that employees were less likely to take a reassignment that was at a lower pay grade, even though the assignment might have been a good development opportunity (Ferris, 1995). So, delayering enables a broader range of pay and more flexibility within each level. Sometimes this type of process also occurs when a company downsizes. Let's assume a company with five hundred employees has traditionally used a pay grade model but decided to move to a more flexible model. Rather than have, say, thirty pay levels, it may reduce this to five or six levels, with greater salary differentials within the grades themselves. This allows organizations to better reward performance, while still having a basic model for hiring managers to follow.

Table 7.4.3: This is the 2021 locality-adjusted GS pay table for Rest of U.S.-area workers.

GS Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10
GS-1	$22,886	$23,654	$24,414	$25,172	$25,932	$26,377	$27,130	$27,888	$27,918	$28,628
GS-2	$25,734	$26,346	$27,198	$27,918	$28,233	$29,063	$29,893	$30,723	$31,553	$32,384
GS-3	$28,078	$29,014	$29,950	$30,886	$31,821	$32,757	$33,693	$34,628	$35,564	$36,500
GS-4	$31,520	$32,570	$33,621	$34,671	$35,722	$36,772	$37,823	$38,873	$39,924	$40,974
GS-5	$35,265	$36,441	$37,616	$38,792	$39,968	$41,144	$42,319	$43,495	$44,671	$45,847
GS-6	$39,311	$40,621	$41,931	$43,241	$44,551	$45,862	$47,172	$48,482	$49,792	$51,103
GS-7	$43,683	$45,139	$46,596	$48,052	$49,508	$50,965	$52,421	$53,877	$55,334	$56,790
GS-8	$48,378	$49,991	$51,604	$53,216	$54,829	$56,442	$58,055	$59,668	$61,281	$62,894
GS-9	$53,433	$55,214	$56,995	$58,776	$60,557	$62,338	$64,119	$65,900	$67,681	$69,462
GS-10	$58,842	$60,804	$62,766	$64,728	$66,690	$68,652	$70,614	$72,575	$74,537	$76,499
GS-11	$64,649	$66,805	$68,960	$71,116	$73,271	$75,427	$77,582	$79,738	$81,893	$84,049
GS-12	$77,488	$80,072	$82,655	$85,238	$87,822	$90,405	$92,988	$95,572	$98,155	$100,739
GS-13	$92,143	$95,215	$98,286	$101,358	$104,429	$107,501	$110,572	$113,644	$116,715	$119,787
GS-14	$108,885	$112,514	$116,144	$119,773	$123,402	$127,031	$130,661	$134,290	$137,919	$141,548
GS-15	$128,078	$132,348	$136,617	$140,886	$145,155	$149,425	$153,694	$157,963	$162,233	$166,502

Rather than use a pay grade scale, some organizations use a going rate model. In this model, analysis of the going rate for a particular job at a particular time is considered when creating the compensation package. This model can work well if market pressures or labor supply-and-demand pressures greatly impact your particular business. For example, if you need to attract the best project managers, but more are already employed (lack of supply)—and most companies are paying $75,000 for this position—you will likely need to pay the same or more, because of labor supply and demand. Many tools are available, such as salarywizard.com, to provide going rate information on particular jobs in every region of the United States.

Compensation Strategies

The president of HR That Works provides some tips on determining compensation.

Another pay model is the management fit model. In this model, each manager makes a decision about who should be paid what when that person is hired. The downside to this model may be potential discrimination, halo effects, and resentment within the organization. Of course, these factors can create morale issues, the exact thing we want to avoid when compensating employees.

In addition to the pay level models we just looked at, other considerations might include the following:

1. **Skill-based pay.** With a skill-based pay system, salary levels are based on an employee's skills, as opposed to job title. This method is implemented similarly to the pay grade model, but rather than job title, a set of skills is assigned a particular pay grade.
2. **Competency-based pay.** Rather than looking at specific skills, the competency-based approach looks at the employee's traits or characteristics as opposed to a specific skills set. This model focuses more on what the employee can become as opposed to the skills he or she already has.
3. **Broadbanding.** Broadbanding is similar to a pay grade system, except all jobs in a particular category are assigned a specific pay category. For example, everyone working in customer service, or all administrative assistants (regardless of department), are paid within the same general band. McDonald's uses this compensation philosophy in their corporate offices, stating that it allows for flexibility in terms of pay, movement, and growth of employees (McDonald's Corporation, 2011).
4. **Variable pay system.** This type of system provides employees with a pay basis but then links the attainment of certain goals or achievements directly to their pay. For example, a salesperson may receive a certain base pay but earn more if he or she meets the sales quota.

How Would You Handle This?

You have been working for your organization for five years. After lots of hard work, you are promoted to sales manager. One of your first tasks is to develop goals for your sales team, then create a budget based on these goals. First, you look at the salaries of all the sales staff to find major pay discrepancies. Some salespeople, who perform equally well, are paid much lower than some sales staff whom you consider to be non-performers. As you dig deeper, you see this is a problem throughout the sales team. You are worried this might affect motivation for your team if they find out what others are making. How would you handle this?

Pay Theories

Now that we have discussed pay systems, it is important to look at some theories on pay that can be helpful to know when choosing the type of pay system your organization will use.

The equity theory is concerned with the relational satisfaction employees get from pay and inputs they provide to the organization. It says that people will evaluate their own compensation by comparing their compensation to others' compensation and their inputs to others' inputs. In other words, people will look at their own compensation packages and at their own inputs (the work performed) and compare that with others. If they perceive this to be unfair, in that another person is paid more but they believe that person is doing less work, motivational issues can occur. For example, people may reduce their own inputs and not work as hard. Employees may also decide to leave the organization as a result of the perceived inequity. In HR, this is an important theory to understand, because even if someone is being paid fairly, they will always compare their own pay to that of others in the organization. The key here is perception, in that the fairness is based entirely on what the employee sees, not what may be the actual reality. Even though HR or management may feel employees are being paid fairly, this may not be the employee's belief. In HR, we need to look at two factors related to pay equity: external pay equity and internal pay equity. External pay equity refers to what other people in similar organizations are being paid for a similar job. Internal pay equity focuses on employees within the same organization. Within the same organization, employees may look at higher level jobs, lower level jobs, and years with the organization to make their decision on pay equity. Consider Walmart, for example. In 2010, Michael Duke, CEO of Walmart, earned roughly $35 million in salary and other compensation (Gomstyne, 2010), while employees earned minimum wage or slightly higher in their respective states. While Walmart contends that its wages are competitive in local markets, the retail giant makes no apologies for the pay difference, citing the need for a specialized skill set to be able to be the CEO of a *Fortune* 500 company. There are hundreds of articles addressing the issue of pay equity between upper level managers and employees of an organization. To make a compensation strategy work, the perceived inputs (the work) and outputs (the pay) need to match fairly.

The expectancy theory is another key theory in relation to pay. The expectancy theory says that employees will put in as much work as they expect to receive. In other words, if the employee perceives they are going to be paid favorably, they will work to achieve the outcomes. If they believe the rewards do not equal the amount of effort, they may not work as hard.

The reinforcement theory, developed by Edward L. Thorndike (Indiana University, 2011), says that if high performance is followed by some reward, that desired behavior will likely occur in the future. Likewise, if high performance isn't followed by a reward, it is less likely the high performance will occur in the future. Consider an extreme example of the reinforcement theory in the world of finance. On Wall Street, bonuses for traders and bankers are a major part of their salary. The average bonus in 2010 was $128,530 (Smith, 2011), which does not take into account specific commissions on trades, which can greatly increase total compensation. One interesting consideration is the ethical implications of certain pay structures, particularly commission and bonus plans. For example, after the US government bailed out American International Group (AIG) with $170 billion in 2009, it was reported AIG would still provide some $165 million in bonuses to the same business unit that brought the company to near collapse, because of contractual issues. Traditionally, a bonus structure is designed to reward performance, rather than be a guaranteed part of the compensation plan, as was the case with AIG. Bonus and commission plans should be utilized to drive desired behavior and act as a reward for the desired behavior, as the reinforcement theory states.

All these theories provide us information to make better decisions when developing our own pay systems. Other considerations are discussed next.

Pay Decision Considerations

Besides the motivational aspect of creating a pay structure, there are some other considerations. First, the size of the organization and the expected expansion of the organization will be a factor. For example, if you are the HR manager for a ten-person company, you likely use a going rate or management fit model. While this is appropriate for your company today, as your organization grows, it may be prudent to develop a more formal pay structure. Ascentium Corporation, based in Seattle, Washington, found this to be the case. When the company started with fewer than fifteen employees, a management fit model was used. As the company ballooned to over five hundred employees in four cities, a pay banding model had to be put into place for fairness.

If your organization also operates overseas, a consideration is how domestic workers will be paid in comparison to the global market. One strategy is to develop a centralized compensation system, which would be one pay system for all employees, regardless of where they live. The downside to this is that the cost of living may be much less in some countries, making the centralized system possibly unfair to employees who live and work in more expensive countries. Another consideration is in what currency employees will be paid. Most US companies pay even their overseas workers in dollars, and not in the local currency where the employee is working. Currency valuation fluctuations could cause challenges in this regard (Watson, 2005).

How you communicate your pay system is extremely important to enhance the motivation that can be created by fair and equitable wage. In addition, where possible, asking for participation from your employees through the use of pay attitude surveys, for example, can create a transparent compensation process, resulting in higher performing employees.

Organizations should develop market pay surveys and review their wages constantly to ensure the organization is within expected ranges for the industry.

Human Resource Recall

Why do you think a transparent compensation policy is so important to motivating a workforce?

Table 7.4.4: Types of Pay

Pay	**Attributes**
Salary	Fixed compensation calculated on a weekly, biweekly, or monthly basis. No extra pay for overtime work.
Hourly Wage	Employees are paid on the basis of number of hours worked.
Piecework System	Employees are paid based on the number of items that are produced.
Types of Incentive Plans	**Attributes**
Commission Plans	An employee may or may not receive a salary but will be paid extra (e.g., a percentage for every sale made).
Bonus Plans	Extra pay for meeting or beating some goal previously determined. Bonus plans can consist of monetary compensation, but also other forms such as time off or gift certificates.
Profit-Sharing Plans	Annual bonuses paid to employees based on the amount of profit the organization earned.
Stock Options	When an employee is given the right to purchase company stock at a particular rate in time. Please note that a stock “option” is different from the actual giving of stock, since the option infers the employee will buy the stock at a set rate, obviously, usually cheaper than the going rate.
Other Types of Compensation	**Attributes**
Fringe Benefits	This can include a variety of options. Sick leave, paid vacation time, health club memberships, daycare services.
Health Benefits	Most organizations provide health and dental care benefits for employees. In addition, disability and life insurance benefits are offered.
401(k) Plans	Some organizations provide a retirement plan for employees. The company would work with a financial organization to set up the plan so employees can save money, and often, companies will “match” a percentage of what the employee contributes to the plan.

Types of Pay

After a pay system has been developed, we can begin to look at specific methods of paying our employees. Remember that when we talk about compensation, we are referring to not only an actual paycheck but additional types of compensation, such as incentive plans that include bonuses and profit sharing. We can divide our total pay system into three categories: pay, incentives, and other types of compensation. Pay is the hourly, weekly, or monthly salary an employee earns. An incentive, often called a pay-for-performance incentive, is given for meeting certain performance standards, such as meeting sales targets. The advantage to incentive pay is that company goals can be linked directly to employee goals, resulting in higher pay for the employee and goal achievement by the organization. The following are desirable traits of incentive plans:

- Clearly communicated
- Attainable but challenging
- Easily understandable
- Tied to company goals

Table $7.4.4$ illustrates the three types of compensation.

Most organizations use a combination of pay, incentives, and other compensation, as outlined in Table $7.4.4$, to develop the total compensation package.

Laws Relating to Pay

As you have already guessed from our earlier chapter discussions, people cannot be discriminated against when it comes to development of pay systems. One issue hotly debated is the issue of comparable worth. Comparable worth states that people should be given similar pay if they are performing the same type of job. Evidence over the years shows this isn't the case, with women earning less than men in many industries. On average, a woman earns 79 cents for every $1.00 a man earns. For women of color, the gap is wider at 69 cents for African-American women and 59 cents for Latina women (National Organization for Women, 2011). Many publications state that women earn less than men for a few reasons:

1. Women work fewer hours because of family care and maternity leave.
2. The career path or job choice of women tends to be lower as a whole.
3. There is a bias favoring men as the "breadwinners," and therefore they are paid more.
4. Women are valued less than men in the workplace.
5. Women don't negotiate salaries as well as men do.

While the reasons are certainly debatable, there is evidence that young women (without children) entering the workforce actually earn more than their male counterparts, owing to higher levels of education (Dougherty, 2010). The EEOC covers discrimination in the workplace, including pay discrimination based on race, color, religion, sex, and national origin. The Equal Pay Act of 1963 makes it illegal to pay different wages to men and women if they perform equal work in the same workplace.

More recent legislation on pay includes the Lilly Ledbetter Fair Pay Act of 2009, the first law signed by President Obama. This bill amends the Civil Rights Act stating that the 180-day statute of limitations for filing an equal pay lawsuit regarding pay discrimination resets with each discriminatory paycheck. The bill stemmed from a lawsuit against Goodyear Tire and Rubber Company by Lilly Ledbetter, who claimed that her nineteen-year career at the company consisted of unfair pay, compared to male workers in the organization. Her complaint was time barred by the US Supreme Court, and the new act addressed the time (180 days) constraint in which people have to file claims.

The Fair Labor Standards Act, or FLSA, was established in 1938 and set a minimum wage for jobs, overtime laws, and child labor laws. FLSA divides workers into exempt and nonexempt status, and jobs under exempt status do not fall under the FLSA guidelines. An exempt employee is usually paid a salary and includes executive, professional, outside sales, and administrative positions. A nonexempt employee is usually an hourly employee. For nonexempt employees, some states may implement a higher minimum wage than that established by the federal government. For example, in 2011, the minimum wage is $8.67 per hour in Washington State, while the federal minimum wage is $7.25 per hour. Obviously, as an HR manager or manager, it is your responsibility to ensure everyone is being paid the minimum wage. This law also requires overtime pay if employees work over forty hours per week. Organizations must also post the FLSA poster in a visible part of the workplace, outlining these laws.

Child labor also falls under FLSA. The goal of these laws is to protect the education of children, prohibit the employment of children in dangerous jobs, and limit the number of working hours of children during the school year and other times of the year (US Department of Labor, 2011).

According to the FLSA, tipped employees are those earning $30 or more per month in tips, such as servers in a restaurant. Employers whose employees receive more than $30 in tips may consider tips as part of wages, but they also must pay $2.12 an hour in direct wages. They must also be able to show that the employee receives at least the applicable minimum wage. If the tips and direct wage do not meet the minimum wage, the employer must pay the difference.

Also relating to pay is the Federal Unemployment Tax Act (FUTA). FUTA provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay a federal and a state unemployment tax, and portions of these funds go toward unemployment benefits should the worker lose his or her job. The Federal Employees Compensation Act (FECA) provides federal employees injured in the performance of their jobs compensation benefits, such as disability. Please note that this is elective for private companies but required of federal agencies.

Negotiating Salary

On negotiating salary from the perspective of an employee.

Key Takeaways

- A job evaluation system should be used to determine the relative value of one job to another. This is the first step in setting up a pay system.
- Several types of pay systems can be implemented. A *pay grade system* sets up specific pay levels for particular jobs, while a *going rate system* looks at the pay through the industry for a certain job title. *Management fit* gives maximum flexibility for managers to pay what they think someone should earn.
- HR managers can also develop pay systems based on skills and competency and utilize broadbanding, which is similar to pay grades. Another option might include variable pay.
- There are several motivational theories in regard to pay. First, the *equity theory* says that people will evaluate their own satisfaction with their compensation by comparing it to others' compensation. The *expectancy theory* says people will put in only as much work as they expect to receive in rewards. Finally, the *reinforcement theory* says if high performance is followed by a reward, high performance is likely to happen in the future.
- Other pay considerations include the size of the organization, whether the company is global, and the level of communication and employee involvement in compensation. HR managers should always be aware of what others are paying in the industry by performing market surveys.
- There are several laws pertaining to pay. Of course, the EEOC ensures that pay is fair for all and does not discriminate. *FLSA* sets a minimum wage and establishes standards for child labor. *FUTA* requires employers to pay unemployment taxes on employees. *FECA* ensures that federal employees receive certain benefits.

Exercises

1. Name and describe three considerations in developing a pay system. Which do you think is best?
2. Which pay theory do you think is the most important when developing your pay system? Why?
3. Visit http://www.dol.gov/dol/topic/wages/minimumwage.htm (please note that sometimes web address change so you may need to search for the information), which publishes minimum wage data for the United States. View the map and compare your state with the federal minimum wage. Is it higher or lower? Which two states have the highest minimum wage? The lowest?

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7.5: Other Types of Compensation

Learning Objectives

1. Explain the various types of benefits that can be offered to employees.

As you already know, there is more to a compensation package than just pay. There are many other aspects to the creation of a good compensation package, including not only pay but incentive pay and other types of compensation. First, we will discuss benefits that are mandated by the federal government, and then we will discuss types of voluntary benefits, including both incentive pay and other types of compensation.

Mandated: Social Security and Medicare

The Social Security Act of 1935 requires employers to withdraw funds from workers' paychecks to pay for retirement benefits. This is called a payroll tax. Please note that all organizations are legally compelled to offer this benefit. After several revisions, we now call this OASDHI or the Old Age, Survivors, Disability, and Health Insurance Program. To be insured, employees must work forty quarters, with a minimum of $1,000 earned per quarter. Once this money is put aside, anyone born after 1960 will receive benefits at 67. The OASDHI tax in 2011 is 4.2 percent on earnings for employees, up to $106,800 and 6.2 percent for the employer up to the same limits. This covers both retirement income as well as medical benefits, called Medicare, once the employee reaches retirement age.

Mandated: Unemployment Insurance and Workers' Compensation

Unemployment insurance is required under the Social Security Act of 1935 and is also called the Federal Unemployment Tax Act (FUTA). This program's goals include providing some lost income for employees during involuntary unemployment, helping workers find a new job, incentivizing employers to continue employment, and developing worker skills if they are laid off. The majority of this plan is funded by employers' payroll taxes, which account for .8 percent per employee. The rate is actually 6.2 percent of compensation, but employers are allowed a tax credit for these payments, which results in the net .8 percent. With this benefit, employees receive unemployment benefits and/or job training when they are laid off or let go from a current job. However, employees would be ineligible to receive these benefits if they quit their job, as it must be involuntary. Just like Social Security, this payroll tax on employers is required.

Some employers also offer workers' compensation benefits. If an employee is hurt on the job, he or she would receive certain benefits, such as a percentage of pay. Jobs are classified into risk levels, and obviously the higher the risk level, the higher the cost of insurance. This is not a federally mandated program, but for some occupations in some states, it may be a requirement.

Mandated: COBRA

While the government does not require companies to provide health-care and medical benefits to employees, the Consolidated Omnibus Budget Reconciliation Act (COBRA) requires companies to allow employees to extend their group coverage for up to thirty-six months. The restrictions for this plan include the requirement of a qualifying event that would mean a loss of benefits, such as termination or reduction in hours. For example, if an employee works forty hours a week with medical insurance, but the schedule is reduced to twenty hours, no longer qualifying him or her for benefits, COBRA would be an option.

Voluntary: Incentive Pay Systems

As we discussed earlier, there are several types of incentive pay systems that can be tied directly to business objectives and the employees' ability to help the company meet those objectives. They include commissions, bonuses, profit sharing, stock options, team pay, and merit pay.

Commissions are usually calculated on the basis of a percentage and earned based on the achievement of specific targets that have been agreed upon by the employee and employer. For example, many salespeople receive commissions from each item sold. Many commission incentive plans require employees to meet a minimum level of sales, who then are paid a comission on each sale beyond the minimum. A straight commission plan is one in which the employee receives no base pay and entire pay is based on meeting sales goals. Many plans, however, include a base pay and commission for each sale. Base pay is the guaranteed salary the employee earns.

Several types of bonuses can be given to employees as incentive pay. Meeting certain company goals or successfully completing a project or other objectives can be tied to a bonus, which is a one-time payment to an employee. A spot bonus is an unplanned bonus given to an employee for meeting a certain objective. These types of bonuses do not always have to be money; they can be other forms such as a gift certificate or trip. Fifty-eight percent of WorldatWork members (WorldatWork, 2000) said that they provide spot bonuses to employees for special recognition above and beyond work performance.

Some organizations choose to reward employees financially when the organization as a whole performs well, through the use of profit sharing as an incentive. For example, if an organization has a profit-sharing program of 2 percent for employees, the employees would earn 2 percent of the overall profit of the company. As you have guessed, this can be an excellent incentive for employees to both work as a team and also monitor their own personal performance so as not to let down the team. For example, in 2011, US automaker General Motors gave one of its highest profit-sharing payouts ever. Forty-five thousand employees received $189 million in a profit-sharing bonus, which equaled about $4,200 per person (Bunkley, 2011). While profit sharing can be a great incentive, it can also be a large expense that should be carefully considered.

Employee ownership of the organization is similar to profit sharing but with a few key differences. In this type of plan, employees are granted stock options, which allow the employees to buy stock at a fixed price. Then if the stock goes up in value, the employee earns the difference between what he or she paid and the value of the stock. With this type of incentive, employees are encouraged to act in the best interest of the organization. Some plans, called employee stock ownership plans, are different from stock options, in that in these plans the employee is given stock as reward for performance.

Figure 7.5.1: Profit sharing and stock ownership can be a good way to motivate employees to work toward the goals of the organization. (Chris Potter – 3D Budget Pie Chart – CC BY 2.0.)

In a smaller organization, team pay or group incentives can be popular. In this type of plan, if the group meets a specified goal, such as the increase of sales by 10 percent, the entire group receives a reward, which can consist of additional pay or bonus. Please note that this is different from individualized bonuses, discussed earlier, since the incentive is a reward for the group as opposed for the individual.

Merit pay is a pay program that links pay to how well the employee performs within the job, and it is normally tied to performance appraisals. Performance appraisals are discussed further in Chapter 7. Merit base is normally an annual pay increase tied to performance. The problem with merit pay is that it may only be received once per year, limiting incentive flexibility. To make merit pay work, performance guidelines should be predetermined. Some organizations offer cost of living annual increases (COLAs), which is not tied to merit but is given to employees as an annual inflationary increase.

Fortune 500 Focus

While the cost of health insurance premiums may be going up for most Americans, these premiums do not hit the individual employee's pocketbook at Microsoft. Microsoft, based in Redmond, Washington, finds itself once again on the *Fortune* 500 Best Companies to Work For list in several areas, including paying for 100 percent of employees' health-care premiums[1]. In addition to cutting this cost for employees, Microsoft also offers domestic partner benefits, one of the first *Fortune* 500 companies to do so. In 2005, Microsoft also began to offer partial coverage for transgender surgery to its existing health-care coverage, which earned Microsoft the highest attainable score by the Human Rights Campaign (HRC) Equality Index

(GLEAM, 2011). Microsoft also promotes fitness and wellness as part of its health-care plan, providing an on-site fitness center and subsidized gym memberships.

Voluntary: Medical Insurance

According to the Bureau of Labor Statistics, 62 percent of companies in 2010 offered health-care benefits to employees (US Bureau of Labor Statistics, 2010). The yearly cost for employee medical insurance averages $9,552, according to the 2009 Towers Perrin survey (Watson, 2009). With such a significant cost to companies, it is up to HR managers to contain these costs, while not negatively affecting employee motivation. Medical insurance usually includes hospital expenses, surgical expenses, and routine health-care visits. Most insurance plans also allow for wellness visits and other alternative care (e.g., massage and acupuncture) within the plans. Many employers also offer vision and dental care benefits as part of their benefits packages. Disability insurance is also provided by some employers as well. We will discuss each of these in detail next.

One important law to keep in mind regarding medical insurance is the Health Insurance Portability and Accountability Act (HIPAA) of 1996. It provides federal protections for personal health information held by covered entities, such as employers. In other words, employers cannot divulge or share health care information they may have on an employee.

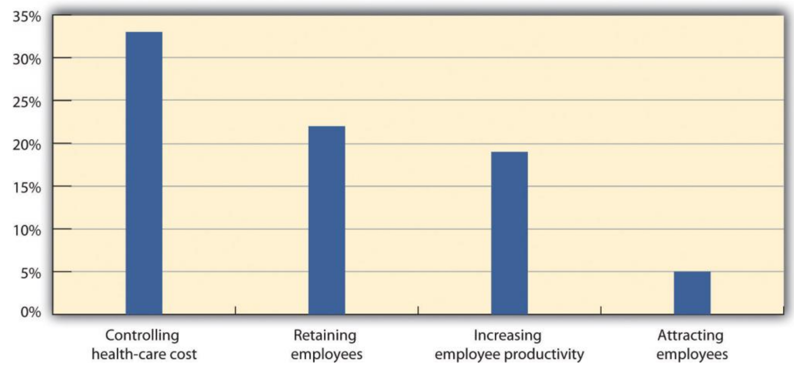

Figure 7.5.2: As you can see from MetLife's 9th annual study in 2010, cost containment is an important aspect to health-care plans.Source: MetLife, "9th Annual Study of Employee Benefits Trends," 2010, www.metlife.com/assets/institutional/services/insights-and-tools/ebts/Employee-Benefits-Trends-Study.pdf (accessed July 23, 2011).

As the HR professional, it will likely be your responsibility to choose the health-care plan that best meets the needs of your employees. Some options include the following:

1. **Fee-for-service plans.** In this type of plan, people pay for medical expenses out of pocket, and then are reimbursed for the benefit level. For example, if your insurance plan covers doctor visits, you could see any doctor, pay the bill, and then submit payment to your insurer for reimbursement. Most companies will have a base plan, which covers more serious issues requiring hospitalization, while the major medical part of the plan would cover routine services, such as doctor's visits. As you can imagine, the disadvantage of this type of plan can be twofold: first, the initial expense for the employee, and second, the time it may take to receive reimbursement for employees. Remember that medical insurance can help retain and motivate employees and help you recruit new employees, so consideration of the disadvantages is important.
2. **Health maintenance organizations (HMOs).** The HMO will likely have greater coverage than the fee-for-service plan, but it limits the ability of employees to see the doctors they choose. There may be a limited number of physicians and specialists for the employee to see, and going outside the plan and seeing another doctor may result in an out-of-pocket expense for the employee. Most HMOs cover a wide range of medical issues and will usually require a copayment by the employee. Some may have minimum deductibles they must meet before the HMO will cover in full. For example, if you are part of an HMO with a deductible of $500 and copayments of $25, you would need to see the doctor for a value of $500 (paid out of pocket) before you can begin to just make the $25 copayment for visits. Some HMOs will not allow members to see a specialist, such as a dermatologist, without prior approval from the primary care physician.
3. **Preferred provider organization (PPO).** This type of medical plan is similar to HMOs but allows employees to see a physician outside the network. They will likely still have to pay a deductible as mentioned above, but PPOs do allow employees more freedom to see specialists, such as dermatologists.

Figure 7.5.3: Considerations When Choosing Medical Insurance, (CC-BY-NC_SA This work)

When choosing the best type of plan for your organization, the following aspects should be considered:

1. The cost of the plan
2. The type of coverage
3. The quality of the care
4. Administration of the plan

First, the cost is usually a major consideration for the HR professional. Developing a budget for health-care costs, initiating bids from possible providers, and then negotiating those bids is a key factor in controlling this cost for employers.

Second, asking for employees' opinions about the type of coverage they would prefer is a way to ensure your plan meets the needs of your employees. Next, consider the quality of care your employees will receive and, finally, how simple will the plan be for your HR department to administer. For example, many HMO plans offer fully automated and online services for employees, making them easy to administer.

Disability insurance provides income to individuals (usually a portion of their salary) should they be injured or need long-term care resulting from an illness. Short-term disability insurance (STD) provides benefits to someone if they are unable to work for six months or less, while long-term disability insurance (LTD) covers the employee for a longer period of time. Normally, disability insurance provides income to the employee that is 60–80 percent of their normal salary.

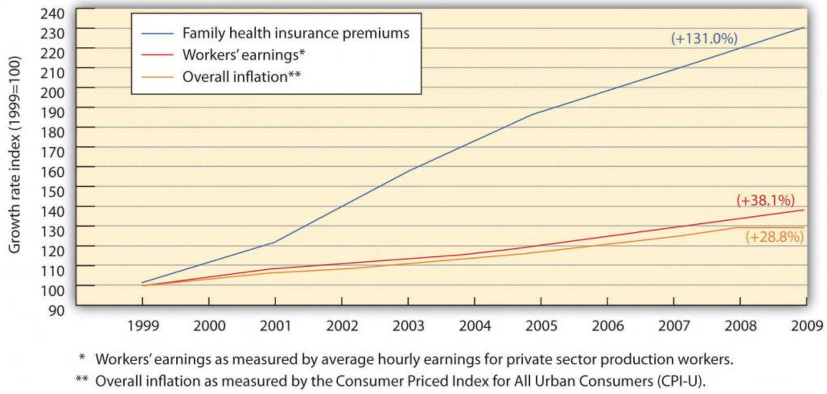

Figure 7.5.4: One of the biggest challenges in health-care benefits planning is to manage the growing cost of health insurance premiums for employees while still managing cost containment for the organization. Source: Economic Policy Institute, "The State of Working America: Health Premiums," stateofworkingamerica.org/charts/growth-rate-of-premiums-earnings-and-inflation/ (accessed July 23, 2011).

Voluntary: 401(k) Plans

As the scenery of the workforce has changed, benefits have changed, too. One such recent change is the movement of employee pension plans to 401(k) plans. While some organizations still offer pension plans, such plans are far more rare. A pension plan is a set dollar amount an employee will receive when they retire from their organization. This type of plan was popular when most people worked their entire life at the same company. However, many pension plans have gone bankrupt, and the United States has an agency to protect people from losing pension benefits. The Pension Benefit Guaranty Corporation (PBGC) was created by the Employee Retirement Income Security Act (ERISA) to protect pension benefits in private sector pension plans. If a pension plan ends or isn't able to pay all benefits, PBGC's insurance program pays the benefit that should have been provided. Financing for this plan comes from insurance premiums paid by the companies whose plans PBGC protects.

As more mobility in the workplace has occurred, most organizations no longer offer pension plans, but instead, they offer 401(k) plans. While a pension plan can motivate employee loyalty, 401(k) plans are far more popular. According to the US Bureau of Labor Statistics, employer-provided retirement plans, such as 401(k) plans, were available to 74 percent of all full-time workers in the United States (US Bureau of Labor Statistics, 2010), while 39 percent of part-time workers had access to retirement benefits.

A 401(k) plan is a plan set up by the organization in which employees directly deposit money from their paycheck. The funds are tax deferred for the employee until retirement. If an employee leaves the job, their 401(k) plan goes with them. As an extra incentive, many organizations offer to match what the employee puts into the plan, usually based on a percentage. For example, an employee can sign up to contribute 5 percent of salary into a 401(k) plan, and the company will contribute the same amount. Most companies require a vesting period—that is, a certain time period, such as a year, before the employer will match the funds contributed.

Usually, 401(k) plans are easy to administer, after the initial setup has occurred. If the employer is matching employee contributions, the expense of such a plan can be great, but it also increases employee retention. Some considerations when choosing a 401(k) plan are as follows:

1. Is the vendor trustworthy?
2. Does the vendor allow employees to change their investments and account information online?
3. How much are the management fees?

It is first important to make sure the vendor you are considering for administration of your 401(k) plan has a positive reputation and also provides ease of access for your employees. For example, most 401(k) plans allow employees to change their address online and move investments from a stock to a bond. Twenty-four-hour access has become the expectation of most employees, and as a result, this is a major consideration before choosing a plan. Most 401(k) plans charge a fee to manage the investments of your employees. The management fees can vary greatly, so receiving a number of bids and comparing these fees is important to ensure your employees are getting the best deal.

It is important to mention the Employee Retirement Income Security Act (ERISA) here, as this relates directly to administration of your 401(k) plan. First, ERISA does not require employers to offer a pension or 401(k) plan, but for those who do, it requires them to meet certain standards when administering this type of plan. Some of these standards include the following:

1. Requires participants receive specific information about the plan, such as plan features and funding
2. Sets minimum standards for participation and vesting
3. Requires accountability of plan's fiduciary responsibilities
4. Requires payment of certain benefits, should the plan be terminated

Voluntary: Paid Time Off

Time off is a benefit we should address, since this type of benefit varies greatly, especially in other parts of the world. French companies, for example, are mandated by law to provide five weeks of paid vacation time to employees (Leung, 2009). In the United States, the number of days off provided is a major budget item worth considering. Here are the general types of time off:

Paid Holidays

Many companies offer a set number of paid holidays, such as New Year's Day, Memorial Day, Christmas, Independence Day, and Thanksgiving.

Sick Leave

The number of sick leave days can vary greatly among employers. The average in the United States is 8.4 paid sick days offered to employees per year (HRM Guide, 2011).

Paid Vacation

With full-time employment, many organizations also offer paid vacation to employees, and it is generally expected as part of the compensation package. According to a survey performed by Salary.com, the average number of paid vacation days in the United States is nine days for one year of service, fourteen days for five years of service, and seventeen days for ten years of service to the organization (Yang, 2011).

Organizations vary greatly in how vacation time is accrued. Some organizations give one hour for a certain number of days worked, while others require a waiting period before earning any paid time off (PTO). In addition, some organizations allow their employees to carry over unused vacation time from one year to the next, while other employees must use their vacation every year or risk losing it.

Paid Time Off (PTO)

One option is to provide a set number of days off, which can be used for vacation time, holidays, and/or sick leave.

To promote longevity, some organizations offer paid (or for example, 60 percent of salary paid) sabbaticals. For example, after five years of employment, the employee may take a paid sabbatical for one month.

A Final Note on Compensation and Benefits Strategy

When creating your compensation plan, of course the ability to recruit and retain should be an important factor. But also, consideration of your workforce needs is crucial to any successful compensation plan. The first step in development of a plan is to ask the employees what they care about. Some employees would rather receive more pay with fewer benefits or better benefits with fewer days off. Surveying the employees allows you, as the HR professional, to better understand the needs of your specific workforce. Once you have developed your plan, understand that it may change to best meet the needs of your business as it changes over time.

Once the plan is developed, communicating the plan with your employees is also essential. Inform your employees via an HR blog, e-mails, and traditional methods such as face to face. Your employees might not always be aware of the benefits cost to the company, so making sure they know is your responsibility. For example, if you pay for 80 percent of the medical insurance premiums, let your employees know. This type of communication can go a long way to allowing the employees to see their value to you within the organization.

Compensation Strategies

Lynn Cameron, managing partner of TechEdge, discusses compensation strategies.

Key Takeaways

- Before beginning work on a pay system, some general questions need to be answered. Questions such as what is a fair wage from the employee’s perspective and how much can be paid but still retain financial health are important starting points.
- After some pay questions are answered, development of a pay philosophy must be developed. For example, an organization may decide to pay lower salaries but offer more benefits.
- Once these tasks are done, the HR manager can then build a pay system that works for the size and industry of the organization.
- Besides salary, one of the biggest expenses for compensation is medical benefits. These can include health benefits, vision, dental, and disability benefits.
- Social Security and unemployment insurance are both required by federal law. Both are paid as a percentage of income by the employee and employer.
- Depending on the state, workers’ compensation might be a requirement. A percentage is paid on behalf of the employee in case he or she is hurt on the job.
- A mandatory benefit, COBRA was enacted to allow employees to continue their health insurance coverage, even if they leave their job.
- There are three main types of health-care plans. A fee-based plan allows the insured to see any doctor and submit reimbursement after a visit. An HMO plan restricts employees to certain doctors and facilities and may require a copayment and/or deductibles. A PPO plan is similar to the HMO but allows for more flexibility in which providers the employee can see.
- Pension funds were once popular, but as people tend to change jobs more, 401(k) plans are becoming more popular, since they can move with the employee.
- Profit sharing is a benefit in which employees receive a percentage of profit the organization earns. Stock ownership plans are plans in which employees can purchase stock or are granted stock and become an owner in the organization.
- Team rewards are also a popular way to motivate employees. These can be in the form of compensation if a group or the company meets certain target goals.
- Paid time off, or PTO, can come in the form of holidays, vacation time, and sick leave. Usually, employees earn more days as they stay with the company.
- Communication with employees is key to a successful benefits strategy.

Exercises

1. Of the benefits we discussed, which ones are required by law? Which are not?
2. Research current Federal Insurance Contributions Act (FICA) tax rates and Social Security limits, as these change frequently. Write down each of these rates and be prepared to share in class.
3. Describe the considerations when developing medical benefits. Which do you think would be the most important to you as the HR manager?
4. Visit websites of three companies you might be interested in working for. Review the incentives they offer and be prepared to discuss your findings in class.

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7.6: Cases and Problems

Chapter Summary

- A *compensation package* is an important part of the overall strategic HRM plan, since much of the company budget is for employee compensation.
- A compensation package can include salary, bonuses, health-care plans, and a variety of other types of compensation.
- The goals of compensation are first to attract people to work for your organization. Second, they can be used to retain people who are already working in the organization.
- Compensation is also used to motivate employees to work at their peak performance and improve morale of the organization.
- Employees who are fairly compensated tend to provide better customer service, which can result in organizational growth and development.
- Several types of pay systems can be implemented. A *pay grade system* sets up specific pay levels for particular jobs, while a *going rate system* looks at the pay throughout the industry for a certain job title. *Management fit* gives maximum flexibility for managers to pay what they think someone should earn.
- HR managers can also develop pay systems based on skills and competency and utilize a broadbanding approach, which is similar to pay grades. Another option might include variable pay.
- There are several motivational theories in regard to pay. First, the *equity theory* says that people will evaluate their own satisfaction with their compensation by comparing it to others' compensation. The *expectancy theory* says people will put in only as much work as they expect to receive in rewards. Finally, the *reinforcement theory* says that if high performance is followed by a reward, high performance is likely to happen in the future.
- Other pay considerations include the size of the organization, whether the company is global, and the level of communication and employee involvement in compensation. HR managers should always be aware of what others are paying in the industry by performing market surveys.
- There are several laws pertaining to pay. Of course, the Equal Employment Opportunity Commission (EEOC) ensures that pay is fair for all and does not discriminate. The *Fair Labor Standards Act (FLSA)* sets a minimum wage and establishes standards for child labor. The *Federal Unemployment Tax Act (FUTA)* requires employers to pay unemployment taxes on employees. The *Federal Employees Compensation Act* (*FECA)* ensures that federal employees receive certain benefits.
- Besides salary, one of the biggest expenses for compensation is medical benefits. These can include health benefits, vision, dental, and disability benefits.
- The *Consolidated Omnibus Budget Reconciliation Act*(*COBRA*) was enacted to allow employees to continue their health insurance coverage, even if they leave their job.
- There are three main types of health-care plans. A fee-based plan allows the insured to see any doctor and submit reimbursement after a visit. An HMO plan restricts employees to certain doctors and facilities and may require a copayment and/or deductibles. A PPO plan is similar to the HMO but allows for more flexibility in which providers the employee can see.
- Pension funds were once popular, but as people tend to change jobs more, 401(k) plans are becoming more popular, since they can move with the employee.
- *Profit sharing* is a benefit in which employees receive a percentage of profit the organization earns. *Stock ownership plans* are plans in which employees can purchase stock or are granted stock and become an owner in the organization.
- Team rewards are also a popular way to motivate employees. These can be in the form of compensation if a group or the company meets certain target goals.
- Social Security and unemployment insurance are both required by federal law. Both are paid as a percentage of income by the employee and employer.
- Depending on the state, workers' compensation might be a requirement. A percentage is paid on behalf of the employee in case he or she is hurt on the job.
- Paid time off, or PTO, can come in the form of holidays, vacation time, and sick leave. Usually, employees earn more days as they stay with the company.
- Communication with employees is key to a successful benefits strategy. This includes communication before implementing the plan as well as communication about the plan.

Chapter Case

PTO: Too Little or Too Much?

- You just finished analyzing information for the current compensation and benefits program. You find that some changes should be made, as the majority of employees (you have 120 employees) are not happy with what is being offered. In fact, the plan had not been revised in over fifteen years, making it dated and definitely ready for some changes.
- One of the major points of contention is the PTO the organization offers. Employees feel the current system of sick time and vacation time offers too few options. For example, one employee says, “I often come to work sick, so I can still have my vacation time for my vacation.” Another employee says, “I have given nine years to this organization, but I receive only three days more than someone who has just started.” Here is the current PTO offering:

1+ year	7 days
5+years	10 days
10+ years	14 days

1. What cost considerations would you take into account when revising this part of your compensation plan?
2. What other considerations would you take into account when developing a new PTO plan?
3. Propose a new plan and estimate the cost of your plan on an Excel spreadsheet. Be prepared to present to the board of directors.

Team Activity

1. Work in teams of four or five. Assume your organization is expanding and wants to open a sales office overseas. What compensation factors would be a concern? Brainstorm a list and be prepared to present to the rest of the class.
2. Go to https://www.bls.gov/ooh/ and review the information on the Occupational Outlook Handbook in teams of three. Pick three different jobs under the management category and record their average salary. Discuss reasons for the pay difference between the jobs you choose.

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CHAPTER OVERVIEW

8: Putting It All Together

8.1: Review and Practice

Power Wrap-Up

Now that you have read this chapter, you should be able to understand the key elements of how to manage your time and resources to be successful in sales.

- You **understand** that although you might be working alone, you have resources available to help you be successful every day.
- You can **discuss** how to manage your time to accomplish your goals.
- You can **recognize** all the key elements of compensation and how you can leverage each to earn the income you want.
- You can **describe** how to set SMART goals and use key performance indicators to help measure progress.
- You can **appreciate** how important believing in yourself is to being successful in sales and in life.
- You can **understand** that failure is a part of selling, but how you react to failure is what can make you successful.
- You can **recognize** that having a healthy mind and body contributes to your chances of success.
- You can **understand** that you can prepare now for the full-time job you want by having internships and getting involved in professional organizations.

TEST YOUR POWER KNOWLEDGE (AnswerS ARE BELOW)

1. What is a ride-along?
2. If you are going through the onboarding process, what are you doing?
3. Name three reasons time can get away from you.
4. List three things you can do to improve your time management.
5. What is the difference between a commission and a draw?
6. If you are earning 12 percent of sales as a commission, how much would you earn on annual sales of $1,100,000?
7. Is it possible for an employer to offer a salary plus commission plus bonus as part of a compensation plan?
8. What is a KPI, and how is it used in sales?
9. Name three ways to get motivated to sell more.
10. How does personal responsibility relate to failure?
11. Name three things you can do to ensure you have a healthy mind and body?
12. Why is it important to have at least one internship?
13. Why is it important to join a professional organization?

POWER (ROLE) PLAY

Now it's time to put what you've learned into practice. The following are two roles that are involved in the same selling situation—one role is the customer, and the other is the salesperson. This will give you the opportunity to think about this selling situation from the point of view of both the customer and the salesperson.

Read each role carefully along with the discussion questions. Be prepared to play either of the roles in class using the concepts covered in this chapter. You may be asked to discuss the roles and do a role-play in groups or individually.

Time Is on My Side: Managing Customers and Your Time

Role: Food and beverage manager at a major luxury hotel chain

You are a significant customer, one that all your liquor distributors want to have because you have a four-star brand name. All the sales reps want to add your hotel chain to their client list. That's why you split the business between several reps. You feel like that provides your business the best service and keeps all the reps on their toes.

You like it when sales reps spend time talking with you and demonstrate that they care about the business. In fact, you are always impressed when one goes out of her way to personally deliver a case of something that didn't get delivered on the truck (it seems like that happens often). When a rep doesn't respond quickly to a delivery error, you take away some of the business from them.

- You believe that when sales reps spend more time at your account, they care more about your business. How do you tell the sales rep that you expect more face time?
- When something is missing on a delivery, you expect the sales rep to bring the missing part of the shipment to the hotel that day. Do you think that is unreasonable?
- You call the sales rep often to see if he will do special things for the hotel, including tastings and other events. You want the sales rep to host a sampling event for a convention next week. You realize it's not very much advance notice, but you want to ask anyway. What will you say to the sales rep?

Role: Liquor distributor sales rep

You have a very small part of this luxury hotel's business; you really want to get more because the hotel has the potential to be your largest customer. However, the food and beverage manager is very demanding, and it takes a lot of your time; in fact, too much time. It seems that a sales call always takes at least two hours. It also seems that you are regularly doing hand deliveries because the food and beverage manager forgets to order things and expects a delivery within a few hours of his call. This account has been a time management challenge. You have to determine if you can get a commitment for more of the hotel's business and reduce the amount of time you spend servicing the account.

- Although this customer has the potential to give you more business, he hasn't yet. He asks for a lot of your time with in-person meetings, personal follow-up on missed deliveries and short notice for special tastings and other events. Should you always say yes to his requests in hopes of getting more business?
- If the customer is always right, what is the best way to balance your time and get additional business to offset your time investment?
- You are extremely busy with another customer on the date that this customer has requested a sampling at his convention, and you have a personal commitment that night. What will you say to this customer about his request?

? ACTIVITIES

1. Use your professional social networking skills by going to LinkedIn (see the *Selling U* section in Chapter 3) and join your school's alumni group. Use the Q & A feature to identify people who are in your target industry. Ask for their advice about what to look for when choosing an internship. If you haven't already done so, join *The Power of Selling* group on LinkedIn and start a discussion or use the questions and answers feature to get input about what to look for when choosing an internship. This group is there to help you.
2. Visit your campus career center and review the Web sites mentioned in the *Selling U* section in this chapter. Identify at least two professional organizations in which you might be interested. Visit their Web sites and review the mission, events, news, membership benefits, and cost. Attend one meeting for each of the organizations to help determine if one might be a good organization to join.

? TEST YOUR POWER KNOWLEDGE AnswerS

1. Traveling with an experienced sales rep or sales manager to make sales calls.
2. Being exposed to an employee orientation process or method for a new employee to learn about company practices, policies, and procedures.
3. Poor planning, procrastination, and making tasks too big.
4. Get organized, set goals, prioritize activities, create a schedule, delegate work to others, and maximize selling time.
5. Commission is the income that is based on the percentage of sales (or gross profit) generated; a draw is an advance against future commissions or bonuses.
6. $\$1,100,000 \times 0.12 = \$144,000$.
7. Yes. Compensation may include as many elements as the employer chooses to offer. Usually commissions and bonuses are higher than salary to provide incentive for salespeople to sell more.
8. KPI stands for key performance indicator: a measure of productivity that relates to achieving goals. KPIs are used to measure progress against SMART goals and are often used to determine compensation and incentives for salespeople.
9. Take pictures of your top ten customers and top ten prospects; tell your family how you are going to celebrate when you achieve your goal; invest at least fifteen minutes every day to read articles, books, or blogs about your industry or profession; and write yourself a check for the amount you want to earn and keep copies with you.

10. Although failure is a part of selling (and of life), personal responsibility means acknowledging and accepting that you are accountable for your choices, learning from failures, and not making the same mistake again.
11. Get a good night's sleep, eat a healthy breakfast, exercise, get right into your day, start your day with an important task, smile, don't worry about what you can't control, and take time for yourself.
12. An internship provides practical work experience and gives you insight about what you might want to do (or not want to do) after graduation. Also, it's a great way to network. In addition, many internships result in full-time job offers.
13. Professional organizations offer students and professionals unique opportunities to network and learn about trends and best practices in the industry; they also provide a chance to stand out and be noticed by getting involved in a committee.

8.2: Managing Yourself, Your Income, and Your Results

Learning Objectives

- Understand how to manage yourself as a selling professional.
- Learn the keys to managing your time.
- Identify the elements that drive your results and income.

So imagine that you landed your dream job in sales, you've been to the corporate office for training and orientation, you've set up your home office, and you've picked up your company car—now what?

Sales is a challenging, exhilarating, demanding, and rewarding profession. You want to be successful and enjoy what you do, but you really haven't had a chance to focus on the actual job between graduation and job interviews. Here's your chance to look ahead to how you learn the day-to-day activities that go on in the profession of selling, identify the resources to help you be a partner to your customers, and bring success to yourself and your company. It sounds like a tall order, but it's easy when you have people to guide and support you.

Be an A-Player

No matter what job you have or what company you sell for, you can and should be an "A-Player." That means being the best at what you do. You don't have to be a celebrity or a person who went to Harvard, according to blogger Auren Hoffman in her April 2009 post "The A-Player Janitor": "An 'A-Player' by definition is incredibly productive and smart and has that 'it,' that rockstar-esque factor that makes everyone want to work with her."Valeria Maltoni, "How Do You Become an A-Player?" Social Media Today, April 17, 2009, www.socialmediatoday.com/SMC/85675 (accessed September 4, 2009). Her point is that hiring managers want to hire the best person for every job. So you don't have to be an A-Player in everything, just be an A-Player in the *one* thing you do best.Auren Hoffman, "The A-Player Janitor," Summation Blog, April 9, 2009, blog.summation.net/2009/04/the-aplayer-janitor.html (accessed September 4, 2009). Find your sweet spot and focus on it. In sales, being an A-Player means connecting with customers. You might be surprised to learn what makes someone an A-Player in sales according to this video.

Video Clip

What Makes an A-Player?

http://www.sellingpower.com/content/video/?date=8/29/2009

Managing Yourself: Making the Most of Your Resources

"The best part of a career in sales is that it is undefined," according to Ann Devine in a recent article on The Black Collegian Online.Ann Devine, "Is a Career in Sales Right for You?" The Black Collegian, www.black-collegian.com/career/career-reports/sales-grad05.shtml (accessed August 19, 2009). Every day is completely different; some days you will be researching leads, and other days you might be making a presentation to a prospective customer. This exciting, unstructured, and sometimes unpredictable environment rarely gets boring. But it's this lack of structure that can present a challenge in choosing priorities and accomplishing goals. Those who are successful realize how to manage themselves and their time and use the resources that are available to them from their company, their colleagues, and their community.

You might be wondering what managing yourself means. When you are in sales, one of the most important jobs you have is being sure that you have clear direction about what you want to accomplish and what you need to do to get there. Even though you are used to managing yourself and your time at school, it can be a daunting task to be responsible for calling on customers and generating sales, especially if you are based in a location remote from the company office such as your home office. So first things first—identify your resources. Even though you're traveling solo, you are not alone.

Manage Yourself for Success

A great salesperson starts with great habits. Here are a few tips from Richard E. Goldman, author of *Luck by Design: Certain Success in an Uncertain World*.

- **Learn by doing**. Take the initiative to seek out information and teach yourself how to do things; the power of learning is by doing.
- **Make your own choices**. You might not have all the information you need at the time, but the best decision is the one you make. Don't let someone else make your decisions for you.
- **Believe in yourself**. You got this job because you are smart and talented. Don't ever believe you can't succeed.Richard E. Goldman, "Managing Yourself First," Focus, July 8, 2009, www.cuckleburr.com/book-excerpt-managing-yourself-first-from-luck-by-design (accessed August 18, 2009).

Ride-Alongs

One of the best ways to learn the ropes and get the inside track is to go on ride-alongs (also referred to as shadowing) with colleagues, traveling with an experienced sales rep or sales manager to make sales calls. The video ride-alongs at the start of each chapter are a virtual way for you to get some powerful insights from experienced sales professionals. Sometimes a ride-along is included in the interviewing process; it's an opportunity for you to experience firsthand exactly what the job entails and for the company to see how you react in the selling environment before you get a job offer. Other times a ride-along is an training opportunity that takes place after you've been hired. Either way, always take advantage of as many opportunities as you can to ride-along with experienced salespeople. There are some tips that will help maximize your ride-along experience.

- **Always be professional**. It is likely that you will be traveling with a salesperson or sales manager at least for a day and sometimes for a week or longer. Even though you will get to know each other, always remember your role on the ride-along.
- **Avoid highly personal or inappropriate topics**. While it's always appropriate to tell the truth, it's best to avoid controversial topics, especially as they relate to the company.
- **Mind your manners and avoid alcohol if you go out to lunch or dinner**. Since you will ultimately be in the role of entertaining clients, the person with whom you are riding will undoubtedly be watching your social behavior.
- **Above all, be yourself**. You won't be able to learn if your focus is on acting in a way that isn't natural."What Do I Do on a Ride Along?" PharmBoard.com, pharmboard.com/what-do-i-do-on-a-ride-along (accessed August 29, 2009).

Use Your Sales Manager

Many salespeople don't realize that their **sales manager** (i.e., the person to whom they report) is ultimately responsible for delivering the company's sales goals. As such, the sales manager wants to do everything he can to help his salespeople be successful. Even before you start your job, it's a good idea to touch base with your sales manager. Chances are you interviewed with him, so you probably have his contact information. A good way to get off to a great start is to send him a handwritten thank-you note after you've accepted the position. What better way to start a new relationship than with a personal note.

Your sales manager can be your most important source of company information as well as customer insights. He had a lot of experience selling before he became a sales manager, and he would likely share his insights to help you be successful. Not only can he make your job (and your life) easier, he can teach you a lot about selling. It's always a good idea to keep your sales manager updated with the status of your customers and prospects. He will appreciate your proactive and regular updates about the standing of each lead and customer in addition to your regular one-on-one meetings, staff meetings, or conference calls.

Sometimes new salespeople are nervous about asking questions of their sales managers, which is natural. It's best to remember that your sales manager doesn't expect you to know everything. Your questions show him that you are interested in learning more about the business from him and help him identify what areas would be most beneficial for coaching. Your sales manager can be a part of your success story. Ask questions, ask his opinion, keep him in the loop, help make him look good, and you will have a relationship that works and grows.

Just as communication is important with customers, it is critical to building your relationship with your sales manager. He probably has a **span of control**, or the number of people reporting to him, ranging from a two to twenty or more people. It's important to understand the organizational structure of a sales department. While each company is different, the basic structure of a selling organization is shown in Figure $8.2.2$. In some companies, salespeople may be responsible for a city or cities, region, or other geographic area. This is called **territory management**. In this case, salespeople, usually called **territory managers**, are responsible for the customers in their specific geographic area. This organizational strategy helps minimize the amount of travel time between customers.

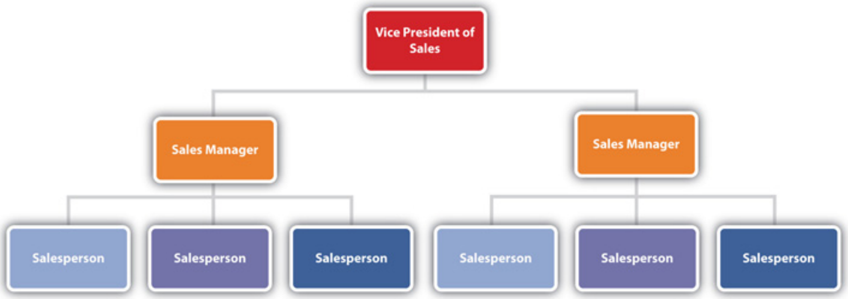

Figure 8.2.2: Sales Department Organization Chart

In other companies, salespeople may be responsible for specific brands, products, or product categories. In the case of food manufacturers, these categories might be noncarbonated beverages, prepared meals, or dairy products. In the professional services arena, the organization might be vertical, such as retail sales, financial services, or health care. This product or category approach may require salespeople to travel to customers in various parts of the country based on the needs of the customers. It requires the salesperson to develop expertise in a specific product or discipline. These sales positions may have titles such as account manager, product manager, or sales rep. The different types of sales positions are discussed in more detail in Chapter 2.

Resources and Resourcefulness

The company you work for, whether it is large or small, has resources. A laptop, the customer relationship management (CRM) system, your expense account, the company owner, the human resources department, accounts receivable department, and others are all resources that can help you do your job. Take the time to explore all the resources when you start with the company. In larger companies, you will most likely participate in an orientation session or process frequently referred to as **onboarding** to learn about how the company operates and how your can take advantage of resources to help you do your job. In a small company, the process is less formal and requires you to be more proactive about understanding what's available. Either way, it's your responsibility to explore and understand your resources. Remember that all the skills you use when you are communicating with customers are the same when you are communicating inside your company: build lasting relationships that are mutually beneficial. While every company is different, here are some internal resources that are available in most companies.

- **Human resources department**. Whether you work for a large company or a start-up, it's a good idea to know the key people in HR. Chances are, you interviewed with someone in the department, but don't stop there. Continue your relationship by learning who handles employee relations (for questions about the company policies or an ethical dilemma) and who handles benefits (for questions about medical, dental, other insurance, 401(k) plan, and other company benefits).
- **Finance department**. You'll want to get to know the people who handle accounts receivable. Since most salespeople are responsible for collections, you will most likely be working closely with people in finance, accounting, or accounts payable. They can provide helpful information about company processes and policies for payment of invoices. You're not the first person to be challenged by customer payment issues, so take advantage of their knowledge and experience.
- **Procurement or product development department**. Whether you are selling a product or a service, you will want to know those who make the decisions about exactly what will be available for sale. Customers may have specific questions about the performance of the product or service that you may need some additional information to answer. In addition, building a relationship with people in this department will help give you insight into what will be available in the future. More important, it will help you provide input and feedback based on the customer's perspective.
- **Marketing department**. The people who are responsible for getting the word out about your company's brand are important to know. You can get insights about advertising, promotions, and other communication activities. You can also get important information about future plans and help shape the marketing plan for the future based on your experience with customers.
- **Information technology department**. Everything from your laptop to your reports is supported in the IT department. It's especially important to get to know the people who man the help desk. Chances are, you will have a technology emergency at some point in time so it's best to build a strong relationship from the start.
- **Other salespeople**. Create relationships with the best-performing salespeople so you can learn the best practices. Go on ride-alongs and learn what makes them successful.
- **Other resources**. Explore the CRM system and company intranet, especially the online communities. This is an excellent way to learn about how sales were won, see examples of successful proposals, and learn about best practices of the top performers.

Power Selling: Lessons in Selling from Successful Brands

School of Hard Rocks

Imagine going to employee orientation and getting the employee handbook that looks more like a comic book than a manual. That's how Hard Rock Café onboards its mostly millennial sales force of wait staff and other support roles during its one-day orientation. Jim Knight, senior director of training and development, completely revamped the company's School of Hard Rocks corporate university. Knight used comic books as his inspiration and got employees involved in telling the Hard Rock Café story; all the illustrations and photos in the handbook were done by Hard Rock employees. The results are impressive: employee turnover rate is now fifty-five points lower than that of the industry.

Besides using company resources, it's also important for you to stay on top of changes in technology, not only to be effective but also to redefine practices. In fact, Helen Hast, a professor at the Harvard Graduate School of Business, has identified managing technological change as of the five core competencies for the twenty-first century. According to a recent article on BNET, she said, "When we have a new tool, we first use it for what we are already doing, just doing it a bit better. But gradually, the new tool changes the way we do things."Sean Silverthorne, "5 Personal Core Competencies for the 21st Century," BNET, August 13, 2009, blogs.bnet.com/harvard/?p=3332&tag=nl.e713 (accessed August 19, 2009).

While resources are important for you to be effective in sales, it's resourcefulness that will make you successful.Tony Robbins, "Tony Robbins: Why We Do What We Do and How We Can Do It Better," video, January 16, 2007, http://www.youtube.com/watch?v=Cpc-t-Uwv1I (accessed September 5, 2009). Think about it: Evan Williams, Biz Stone, and Jack Dorsey figured out a way to make Twitter—the microblogging site they founded in March 2006—one of the most popular Web sites in the world without the use of traditional advertising to spread the word.Ashton Kutcher, "The Twitter Guys: The 2009 Time 100," *Time*, www.time.com/time/specials/packages/article/0,28804,1894410_1893837_1894156,00.html (accessed September 5, 2009).

It would be hard to argue that Williams, Stone, and Dorsey had all the resources they needed to launch this hugely successful Web site; they had no money for advertising, or anything else for that matter. But they were resourceful about getting people to try their new service, use it, and engage with it. While you might not invent the next Twitter, you can certainly sell the next big idea by using your resources and being resourceful.

Managing Your Time: Organizing and Prioritizing

Depending on the type of business you are in and the company you work for, you might have as few as one customer and as many as a hundred or more. You might be wondering how you determine which customers to call on each day, how much time should be spent on prospecting versus calling on existing customers, how much time should be devoted to nonselling activities such as travel, paperwork, and internal meetings. While there is no hard-and-fast answer to these questions, your goal should be to spend as much time as possible with customers or prospects. It's impossible to sell if you are not in front of a customer.

Consider this: Salespeople spend approximately fourteen hours a week engaged in face-to-face selling. That means that 70 percent of the time, in an average forty-six-hour workweek, salespeople are doing something other than face-to-face selling.Gerald L. Manning, Barry L. Reece, and Michael Ahearne, *Selling Today: Creating Customer Value* (Upper Saddle River, NJ: Pearson Prentice Hall, 2010), 31. See Figure $8.2.3$ for a complete breakdown of activities.

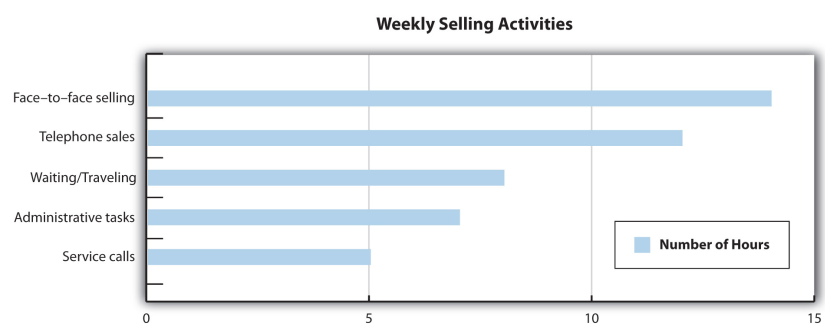

Figure $8.2.3$: Activities of Salespeople in an Average *WorkweekData from Gerald L. Manning, Barry L. Reece, and Michael Ahearne, Selling Today: Creating Customer Value (Upper Saddle River, NJ: Pearson Prentice Hall, 2010), 31.*

Since your objective is to spend as much time as possible with customers, you'll need to balance where you physically spend your time and with which customers you spend it. This is where territory management strategies come into play. Based on the **call cycle**, the frequency at which you call on each of your customers, and where each is located, you'll develop a plan to call on your existing customers and allow time for prospecting. In other words, you will need to have a plan to invest your time wisely to meet your goals.

To plan your sales calls, you'll need a map (Google maps or MapQuest) and sales and potential sales information by customer (your company CRM system should include some, if not all, of this information), and your call cycle. Identify the location of each of your customers with a red dot or push pin. Then, divide your territory into sections by geography (designated as one, two, three, etc.), this can become the basis of your territory management plan. Review your customer data, including current sales and potential sales, to organize and prioritize your customers and calls. Figure 8.2.4 includes an example of a territory management worksheet.

Customer	Current Sales	Potential Sales	Territory Section	# of Calls per Month (call cycle)
A	$3,000	$10,000	1	2
B	$2,000	$3,000	1	Once every other month
C	$10,000	$10,000	1	2
D	$1,000	$6,000	2	1
E	$3,000	$12,000	2	2
F	$2,500	$3,000	2	1

Figure 8.2.4: Territory Management Worksheet

Based on this, you would plan your route so that you are making calls in one section of your territory on a given day, then covering another section on another day. This will ensure that you regularly visit your best customers and those with the most potential for growth, minimizing your travel time. While this might seem like a lot of work to do, it will save you time in the long run and help you increase your sales…and your income.

Time Management

I am definitely going to take a course on time management…just as soon as I can work it into my schedule.

Louis E. Boone

If you've ever felt this way, it's time to focus on **time management**. Salespeople get paid on results, not on the number of hours worked. As a salesperson, there are so many demands on your time: client needs, internal meetings, follow-ups, proposals, phone calls, e-mails, text messages, and the emergency du jour. All these can be time thieves, or activities that literally steal your time away from selling. You can easily fill your days with demanding tasks like these that really do not bring value to customers or ultimately close sales. Keep in mind that according to renowned sales consultant and motivational speaker Zig Ziglar, "Nothing happens until someone sells something."Ann Devine, "Is a Career in Sales Right for You?" The Black Collegian, www.black-collegian.com/career/career-reports/sales-grad05.shtml (accessed August 19, 2009). To understand how to avoid getting caught up in the daily sea of details, it's a good idea to realize why these interruptions and administrative demands consume your day. Here are three key reasons that time can get away from you:

- **Poor planning**. Avoid getting caught up in the moment and make a plan every day of selling activities—not time-fillers—that you want to accomplish. True selling activities include things like identifying six new prospects, setting up three appointments for the coming week, or closing at least one sale. "Write your top three outcomes at the top of your plan" is good advice.John Hacking, "Time Management for Sales People," Buzzle.com, October 15, 2007, www.buzzle.com/articles/time-management-for-sales-people.html (accessed September 5, 2009).
- **Procrastination**. Fear of rejection causes many salespeople to stay involved in meaningless tasks. It's hard to get an appointment with a customer, as they don't always have time to give to salespeople. Customers want true solutions, not a sales

pitch. It takes time, research, and creativity to really understand a customers' business."Procrastination Costing Your Sales Team," ArticlesBase, April 29, 2009, http://www.articlesbase.com/education-articles/procrastination-costing-your-sales-team-893170.html (accessed September 5, 2009).
- **Making tasks too big**. Thinking about how long it takes to go from identifying a prospect to actually closing a sale can sometimes make the job seem overwhelming. Sales success comes from a series of wins, not one home run. It's best to set short-term goals to make steady progress toward the larger, longer-term goal.John Hacking, "Time Management for Sales People," Buzzle.com, October 15, 2007, www.buzzle.com/articles/time-management-for-sales-people.html (accessed September 5, 2009).

Mastering Time Management

While there are many theories on the best way to manage yourself and your time, one of the best resources is *The Seven Habits of Highly Effective People* by best-selling author and management expert Stephen R. Covey. The book is based on seven principles that appear to be simple, but provide a framework to make you more efficient, effective, and successful.

- **Habit 1: Be proactive**. Take ownership and control your environment.
- **Habit 2: Begin with the end in mind**. Develop personal leadership that helps you stay focused on your goals.
- **Habit 3: Put first things first**. Avoid distractions and time wasters with personal management; this is the essence of time management.
- **Habit 4: Think win-win**. Build success through cooperation with others, not on a win-lose attitude.
- **Habit 5: Seek first to understand, then to be understood**. Develop strong relationships by listening and understanding.
- **Habit 6: Synergize**. See and appreciate what others have to contribute.
- **Habit 7: Sharpen the saw**. Focus on self-renewal in four areas: spiritual, mental, physical, and social/emotional."The Seven Habits of Highly Effective People," Businessballs.com, http://www.businessballs.com/sevenhabitsstevencovey.htm (accessed January 2, 2010).

Covey's philosophy has been embraced by so many that his consulting firm, FranklinCovey, advises thousands of people and companies around the world. His time management and personal planning tools are very popular with a loyal following. You can learn more about Stephen Covey and his philosophy at www.franklincovey.com/tc.

Choosing Success

(click to see video)

Hear Stephen Covey talk about choosing success.

Power Point: Lessons in Selling from the Customer's Point of View

Don't Waste My Time

If you think your time is valuable, think about how valuable your customer's time is. When your customer thinks that doing business with you helps her save time, it can be a reason she won't do business with anyone else. Ask Marcia F. Borello, who sings the praises of BankAtlantic in Tampa, Florida: "I do my banking exclusively at BankAtlantic because I save so much time. At so many other banks, I waste my precious free time in my lunch hour waiting in long lines hurrying to make my banking transactions before the bank closes at 4 pm. BankAtlantic's long hours and seven day service make it convenient for me to do my banking when I choose to."Marcia F. Borello comment, Bank Atlantic, www.bankatlantic.com/Customerfeedback/default.html (accessed September 13, 2009).

The moral of the story is that when you save time and save your customer's time, you get more business.

Top Three Time-Wasters for Salespeople

Selling is all about making things happen. According to Ray Silverstein, "When you're selling, time is your most valuable asset."Ray Silverstein, "Time Management for Sales Pros," *Entrepreneur*, March 20, 2007, http://www.entrepreneur.com/management/leadership/leadershipcolumnistraysilverstein/article176034.html (accessed September 5, 2009). But sometimes salespeople can get sidetracked doing tasks that don't really generate sales. Here are the top three time-wasters:

1. **Focusing on the urgent**. E-mails, phone calls, paperwork, and even meetings can be unnecessary tasks that appear to be urgent but take time and focus away from selling.
2. **Being too comfortable**. Habit, routine, and being comfortable can be barriers to breaking through to sell the next big idea.
3. **Lacking trust in other people**. Salespeople can miss a huge opportunity for teamwork and sharing the workload when they think that no one else can do it as well as they can.Dave Kahle, "Biggest Time Wasters for Sales People," Business Know-How, http://www.businessknowhow.com/growth/timewast.htm (accessed September 5, 2009).

Work Smarter, Not Harder

Being successful in sales doesn't require working longer hours; it requires taking control.Tom Metcalf, "3 Steps to Better Time Management for Sales Reps," Sales Reps, Increase Your Productivity! Blog, January 3, 2007, telenotes.blogspot.com/2007/01/3-steps-to-better-time-management-for.html (accessed May 16, 2010). Time management is all about taking control of your time, your life, and your results. Here are six road-tested tips for effective time management that you can use for school and in sales:

1. **Get organized**.Doug Dvorak, "How to Use Time Management to Become a More Successful Sales Professional!" EzineArticles, ezinearticles.com/?How-to-Use- Time-Management-to-Become-a-More-Successful-Sales-Professional!&id=1081316 (accessed September 6, 2009). Get all the right tools to do your work efficiently and effectively. Be sure your work space is adequate with appropriate light, get file folders for each subject, organize your electronic files by folder, and choose a naming convention (e.g., customer name_topic_date) so it will be easier to find files that may have been saved to the wrong folder.Margot Carmichael Lester, "5 Ways to Get and Stay Organized" SalesHQ.com, www.saleshq.com/training/articles/1353-5-ways-to-get-and-stay-organized (accessed September 6, 2009).

Consider using a time management product to help you stay organized. Franklin Covey offers a world-renowned planning system at shopping.franklinplanner.com/shopping/index.jsp?. Day-Timer also offers paper and electronic options (including iPhone apps) for planning at http://www.daytimer.com. In addition, Microsoft Outlook and other e-mail programs offer excellent tools to help you organize and plan your time.

2. **Set goals for the day, week, month, and year**. If you don't know what you expect to accomplish, you'll never know if you get there. Write down the goals you want to accomplish every day in a to-do list; it's a good idea to write down your goals at the end of the day for the next day.Doug Dvorak, "How to Use Time Management to Become a More Successful Sales Professional!" EzineArticles, ezinearticles.com/?How-to-Use- Time-Management-to-Become-a-More-Successful-Sales-Professional!&id=1081316 (accessed September 6, 2009). Invest fifteen minutes at the end of every day to plan for the next day.Jim Meisenheimer, "25 Ways to Get Motivated to Start Selling More," EvanCarmichael.com, www.evancarmichael.com/Sales/407/25-Ways-To-Get-Motivated-To-Start-Selling-More.html (accessed August 19, 2009). Take the time to write down your goals for the coming week, Sunday night is a good time to do this. Be clear and realistic about what you want to accomplish and by when.

Time Is Money

(click to see video)

Hear how Andrew Sykes, pharmaceutical sales specialist whom you met in the video ride-along in Chapter 5, manages his time.

3. **Prioritize your activities**. Now that you have created your action plan, or to-do list, review it and reorder it to put the most important things first. Focus your time on the most important activities."How Good Is Your Time Management?" Mind Tools, http://www.mindtools.com/pages/article/newHTE_88.htm (accessed September 6, 2009). Lee Iacocca, the former CEO of Chrysler, said it best: "If you want to make good use of your time, you've got to know what's most important and then give it all you've got.Donald Latumhahina, "Time Quotes: 66 Best Time Management Quotes," Life Optimizer Blog, March 8, 2007, http://www.lifeoptimizer.org/2007/03/08/66-best-quotes-on-time-management (accessed August 19, 2009). In other words, do important and challenging things first.

Sometimes people think it's best to do a lot of small things first so that you can scratch them off your list. But it's best to take on more challenging things when you are fresh and leave the smaller things for later or when you have a few minutes in your day.

4. **Create a schedule**. Using your to-do list as a guide, put times to your activities so that you can identify the amount of time it will take to accomplish each one. Also, during the day this schedule will serve as a guide and help keep you on track. And "manage minutes" effectively; use travel time, waiting time, and other downtime to return phone calls and e-mails or to think about solutions for customer problems.Margot Carmichael Lester, "5 Ways to Get and Stay Organized" SalesHQ.com,

www.saleshq.com/training/articles/1353-5-ways-to-get-and-stay-organized (accessed September 6, 2009). Include addresses, phone numbers, and e-mail addresses for each person you need to contact if they are not already in your address book. This will help save time and prevent distractions.Jim Meisenheimer, “25 Ways to Get Motivated to Start Selling More,” EvanCarmichael.com, www.evancarmichael.com/Sales/407/25-Ways-To-Get-Motivated-To-Start-Selling-More.html (accessed August 19, 2009).

5. **Delegate work to others**. Although you might be working independently, chances are there are other people in the company that can help with certain activities. Clerical and administrative tasks should be delegated to your assistant or other support person. Always thank someone (subordinate, colleague, family member) who helps you get your work done.Doug Dvorak, “How to Use Time Management to Become a More Successful Sales Professional!” EzineArticles, ezinearticles.com/?How-to-Use- Time-Management-to-Become-a-More-Successful-Sales-Professional!&id=1081316 (accessed September 6, 2009). Delegation is the true secret to success: a survey conducted by Watson Wyatt shows that high-performing salespeople spend 30 percent less time on administrative tasks than the low performers.Doug Dvorak, “How to Use Time Management to Become a More Successful Sales Professional!” EzineArticles, ezinearticles.com/?How-to-Use- Time-Management-to-Become-a-More-Successful-Sales-Professional!&id=1081316 (accessed September 6, 2009).

6. **Maximize selling time**. Your objective should be to spend as much time as possible in front of customers; it’s practically impossible to sell anything if you’re not talking to and learning about your customers. Shane Gibson, “How to Operationalize Your Selling Strategy,” SalesHQ, www.saleshq.com/training/articles/1990-how-to-operationalize-your-selling-strategy (accessed September 6, 2009). That means that you will have to manage interruptions.

Sales Traffic School

(click to see video)

See how all these time management tips come together to maximize selling time in this video featuring George Ludwig speaking about the “sales traffic school.”

Link

How Good Are Your Time Management Skills?

Take the quiz by clicking on the link and learn about the areas of your time management that might need some focus.

http://www.mindtools.com/pages/article/newHTE_88.htm

Managing Your Results: Set Goals and Determine Your Income

Patricia Schneider, a former beauty queen, aspiring actress, and law firm clerk, started selling Mary Kay Cosmetics because she heard that the company awards a pink Cadillac for meeting certain goals. With 150,000 miles on her Toyota Celica, she decided that she could sell makeup. She got her first pink Cadillac in 2003; in 2009 she earned her fourth one.Lori Basheda, “May Kay Consultant Scores Fourth Pink Cadillac,” *Orange County Register*, August 18, 2009, www.bta.org/ (accessed September 6, 2009). Patricia learned that if you want to earn cars and money, go into sales.

- **salary**. This is a regular payment from your employer in exchange for your services. Salary is a set amount and is usually the same amount for every **pay period**, or interval of time for which you are paid. A pay period may be weekly, biweekly, monthly, or quarterly depending on the company and the position. Most companies have biweekly pay periods. In most sales positions, if salary is included as one of the components of the compensation plan, it is usually a small portion of the compensation. This allows the company to provide incentive to the salespeople with a greater opportunity to earn more money based on the amount of sales (or gross profit) generated but still provides some regular guaranteed income to the salesperson. In other words, salary doesn’t necessarily provide incentive for a salesperson to sell more since it is paid no matter what sales are generated.Jim Kahrs, “Sales Compensation: Creating a Plan that Works for Your Dealership,” Prosperity Plus Management Consulting Inc., www.prosperityplus.biz/ArticleSalesComp.html (accessed May 16, 2010). If a company pays salary, the salary usually makes up 15 percent to 40 percent of total compensation.“Sales Compensation Plan Components,” Online Business Advisor, www.onlinebusadv.com/?PAGE=178 (accessed August 19, 2009). The percentage of salary will be higher for new salespeople; whereas more experienced salespeople will earn a higher percentage of their compensation from commissions. For example, if total compensation is $50,000, salary might be $20,000 for a new salesperson (approximately 40 percent of total compensation); whereas an experienced salesperson might earn $24,000 in salary but earn a total of $120,000 including commission (20 percent of total compensation).

- **commission**. This is income that is based on the percentage of sales or gross profit generated. Commission is usually the largest portion of salesperson compensation. It is designed to be an incentive to the salesperson to sell more. This is one of the ways that salespeople have virtually unlimited income. Most sales jobs include some kind of commission element; others pay **straight commission**, which means that the salesperson makes only a percentage of what she sells without any guaranteed salary."Sales Compensation Plan Components," Online Business Advisor, www.onlinebusadv.com/?PAGE=178 (accessed August 19, 2009). Depending on the company, commission might be paid on sales dollars, on **gross profit** dollars, or as a percentage. Gross profit is the difference between sales generated and the cost of the product or service. Gross profit may be expressed as dollars or a percentage. Gross profit dollars are calculated by multiplying the gross profit percentage times the sales.Jim Kahrs, "Sales Compensation: Creating a Plan that Works for Your Dealership," Prosperity Plus Management Consulting Inc., www.prosperityplus.biz/ArticleSalesComp.html (accessed May 16, 2010). When salespeople have control over pricing, commission plans are usually based on gross profit to ensure that the company makes a profit on each sale."Sales Compensation Plan Components," Online Business Advisor, www.onlinebusadv.com/?PAGE=178 (accessed August 19, 2009). For example, if a 15 percent commission is paid on sales of $1 million, the income for the salesperson is $150,000 ($1,000,000 × 0.15 = $150,000). If a 25 percent commission is paid on gross profit (the difference between the selling price and the profit) based on a 35 percent gross profit and $1 million in sales, the commission would be $87,500 ($1,000,000 × 0.35) × 0.25 = $87,500. This calculation is also shown in Figure 8.2.6.

  While most sales positions include commission, some positions pay a combination of salary plus commission. This helps provide some steady income for a salesperson, especially during businesses that have peaks and valleys.

  Do you want to earn enough money to drive a pink Cadillac, a BMW, or Mercedes? Or is your goal to buy a condo? Maybe you want to be able to travel to the islands during the winter or experience exotic locations around the globe. All these can be possible in sales because how much money you earn every year is usually up to you. It's not too good to be true; it's the reality of sales. The lifeblood of every company is its sales force, those people who connect to customers and generate sales for the company. That's why most selling jobs provide at least some portion of **compensation**—money and benefits received in exchange for providing services to a company that is based on performance. Compensation may include one element such as salary or several components including salary, commission, bonus, benefits, and more. To understand how compensation works in sales, it's important to know the terms.

  Generally, it takes time for a new person to build up a customer base and begin earning higher commissions. For more detail about how commissions are calculated, follow this link:

  http://compforce.typepad.com/compensation_force/2009/01/sales-commission-calculation-basics.html

Commission based on sales

Sales: $1,000,000
Commission rate: 15%
Commission: $150,000 ($1,000,000 × .15)

Commission based on gross profit

Sales: $1,000,000
Gross profit: 35%
Gross profit dollars: $350,000
Commission rate: 25%
Commission: $87,500 ($1,000,000 × .35 × .25)

Figure 8.2.6: Commission Calculations

- **draw**. This is an advance against future commissions or bonuses. Earning a draw provides steady income to the salesperson, especially if commissions are paid on a monthly or quarterly basis.Jim Kahrs, "Sales Compensation: Creating a Plan that Works for Your Dealership," Prosperity Plus Management Consulting Inc., www.prosperityplus.biz/ArticleSalesComp.html (accessed May 16, 2010). For example, a salesperson might be guaranteed a draw of $2,000 per month; if the salesperson earns more than $2,000 in commissions she makes whatever she earns. If she earns $1,500, she is paid $2,000 for the month. In some cases, the

$500 shortfall would be deducted from future commission earnings; this is called **recoverable draw**. On the other hand, a **nonrecoverable draw** means that a shortfall in commissions earned would not be owed to the company. Generally, a draw is designed to provide an income to a salesperson while he is building his customer base.“Sales Compensation Plan Components,” Online Business Advisor, www.onlinebusadv.com/?PAGE=178 (accessed August 19, 2009).

- **bonus**. This is an incentive paid to sell a particular product or service or to reach a specific sales goal. Bonuses are paid in addition to salary and commission. They are usually paid quarterly but may be paid monthly.“Sales Compensation Plan Components,” Online Business Advisor,www.onlinebusadv.com/?PAGE=178 (accessed August 19, 2009). Bonuses can be a significant portion of total compensation, depending on the industry and company. For example, in primary care pharmaceutical sales, a bonus can be between $20,000 and $25,000 and as high as $50,000.Cory Nahman, “Frequently Asked Questions Regarding the Profession of Pharmaceutical Sales Representative,” http://www.coreynahman.com/how_many_products.html (accessed August 19, 2009).

Video Clip

Who Wants to Be a Millionaire?

Imagine making $1 million a year. Irina Haydon, executive director of sales and service at Heartland Payment Systems, shares what it takes to make $1 million a year.

http://www.sellingpower.com/content/video/index.php?mid=150

Plan to Earn

Now you can see why managing yourself, managing your time, and understanding compensation plans are so important to success in sales. All these elements are linked to the company’s goals, which ultimately determine your sales goals. For example, if the company is planning a 6 percent sales increase for the year, each salesperson is responsible for delivering a certain portion of that increase. Since some salespeople are new, their goals will undoubtedly be less than those salespeople who have been at the company long enough to develop customer relationships and steady income streams.

The most important aspect of sales is to understand your sales goals: exactly what is expected and by when. Most companies establish annual sales goals or quotas, expectations of sales for a specific time frame, by salesperson, and then break down the goals by month and sometimes by week. Establishing specific, measurable, actionable, realistic, and time-bound (SMART) sales goals (covered in Chapter 8) provides a clear set of expectations for the salesperson and the company. For example, a SMART sales goal is “to increase dollar sales of accounting software with current customers by 8 percent by December 31, 2011.”

When this goal is broken down by month and by week, it provides a way to measure progress regularly. More important, the SMART goal provides a method by which to have a regular conversation with your sales manager to discuss how to remove barriers or gain access to additional resources to achieve the goal. SMART goals become the basis of sales quotas.

Since many business-to-business (B2B) sales have a long sales cycle, many companies use **key performance indicators (KPIs)** to help gauge the productivity of each salesperson. KPIs might be compared to miles per gallon; they are a measure of efficiency and effectiveness. So while sales or gross profit might be included in a SMART goal, KPIs provide insights into performance; they can act as a way to diagnose problems in the selling process. KPIs are used to evaluate performance and compensation. Results are how salespeople are evaluated and paid. If a salesperson is not generating the desired results, chances are he won’t last long in his position at that company.

KPIs may be organized by type of goal—performance KPIs or conversion KPIs. **Performance KPIs** are those that include outcomes such as sales, new accounts, units sold, or gross profit percent. **Conversion KPIs** are used as a measure of a salesperson’s productivity or efficiency but do not have outcomes. Examples of conversion KPIs are sales per customer or closing ratio.Baron A. Weitz, Stephen B. Castleberry, and John F. Tanner, *Selling: Building Partnerships*, 5th ed. (New York: McGraw-Hill, 2003), 397. The following are some performance KPIs and conversion KPIs that are commonly used to measure the effectiveness of salespeople.

Performance KPIs

- **Sales quota (sales goal)**. Expected sales volume to be generated in a specific time frame; salespeople are usually given quotas by day, week, month, quarter, and year, which may be used as the basis for compensation and sales incentives.

- **Sales versus quota**. Sales generated compared to the sales goal or quota by the salesperson during the designated time frame; when a salesperson falls short of his sales goal, it is an opportunity for improvement.
- **Gross profit**. Difference between the cost of the product and the selling price.
- **Number of new accounts**. Number of customers who were not doing business with the company during the prior period.

Conversion KPIs

- **Sales per customer**. Total sales generated by the salesperson divided by the number of customers; high sales per customer indicates sales rep productivity.
- **Sales per employee**. Total sales generated divided by the number of employees at the company; high sales per employee indicate a productive sales force.
- **Customer penetration**. The percentage of a customer's business (in total dollars and across product lines) that is being done with the salesperson; high penetration usually indicates a productive salesperson (and usually a good relationship with the customer).
- **Cost per sale**. The cost of generating the sale (cost of sales rep compensation, travel and entertainment, marketing materials, promotional discounts, and other expenses); low cost per sale usually indicates a productive salesperson who is able to close the sale quickly and at a higher gross profit (and, therefore, lower cost).
- **First appointment-to-proposal ratio**. The number of days it takes after a first appointment with a prospect until a proposal is made; a low number of days usually indicates a salesperson who moves quickly on an opportunity.
- **Closing ratio**. The percentage of times that a salesperson coverts a prospect to a customer by making a sale; a high closing ratio usually indicates a productive salesperson.Jeff Hardesty, "Setting and Exceeding Sales Goals through Key Performance Indicators (KPIs)," UnArchived Articles, June 14, 2006, articles.webraydian.com/article312-Setting_and_Exceeding_Sales_Goals_through_Key_Performance_ Indicators_KPI.html (accessed August 19, 2009).
- **Call cycle**. The frequency at which a salesperson calls on a customer (e.g., once every twenty days); call cycle will vary depending on the size and potential of the customer; a shorter call cycle indicates that there is more contact with the customer.
- **Call-to-sale ratio**. The percentage of calls that result in a sale; a low call-to-sale ratio usually indicates a productive salesperson.

Your sales manager will undoubtedly set quotas for you for many KPIs based on the goals of the company. Sales goals or quotas are used by companies "to align sales force performance to the business plan."Renee Houston Zemanski, "Tough Truth about Quotas," *Selling Power* 22, no. 6, http://www.sellingpower.com/content/article.php?a=5998 (accessed March 16, 2010). In many instances, sales quotas are used as the basis of incentives, such as additional commission, cash, and other incentives. You can use KPIs to set your goals for your annual income and see what it will take to make your earnings goal a reality. See Table 14.1 for this example.

Assume you wanted to make $45,000 in a year and you are paid a $500 commission on every sale. What will it take to earn your target income? Do the math below.Baron A. Weitz, Stephen B. Castleberry, and John F. Tanner, *Selling: Building Partnerships*, 5th ed. (New York: McGraw-Hill, 2003), 397.

Table 8.2.1: Goal Setting

KPI Name	Calculation	KPI Goal
Annual earnings	$45,000	
Commission per sale		
Number of sales	Earnings ÷ commission per sale *$45,000 ÷ $800*	57
Closing ratio		10%
Number of prospects	Sales × number of prospects per sale *50 × 10*	570
Number of prospect calls	Number of prospects × number of calls per prospect *570 × 2.5*	1,425

KPI Name	Calculation	KPI Goal
Average number of sales calls per month	Number of prospect calls divided by 12 *1,425 ÷ 12*	119
Average number of sales calls per week	Number of monthly prospect calls divided by 4 *119 ÷ 4*	30
Average number of sales calls per day	Number of weekly prospect calls divided by 5 *30 ÷ 5*	6

Set Your Goals

It might seem a little overwhelming to think about achieving a specific sales goal. But it's easier than you think when you use these tips of the trade to help you plan:

- **Write down your goals**. Believe it or not, you actually increase your chances for success when you put your goals in writing. Whether you are setting goals for your career, for the year, or for the day ahead, write them down and prioritize them.

What Can You Do in Twenty-Four Hours?

(click to see video)

Listen to author and selling expert Brian Tracy talk about what you can accomplish when you write down your goals and commit to achieving them.

- **Understand what it takes to achieve your goal**. If your goal is to generate a 10 percent increase in sales over last month's sales, do the math and determine what that means in dollar sales, then determine how many sales calls you will have to make to achieve your goal. See Table 14.1 for an example.

It's All in the Numbers

(click to see video)

Watch this video to see why life is a numbers game.

- **Schedule success**. Once you determine how many sales calls you will need to make to achieve your goal, plan your schedule so you plan the time it takes.
- **Track your progress**. Track your daily progress against your goal and make adjustments where necessary.
- **Stay focused**. It's easy to lose focus, especially if things aren't going according to plan. Review your plan and see where you have opportunities and start each day with determination to reach your goal."How to Exceed Monthly Sales Targets," eHow, www.ehow.com/how_2252974_exceed-monthly-sales-targets.html (accessed August 19, 2009).

Video Clip

How Measuring and Metrics Drive Success

Learn more about how metrics and measurements can help you achieve your goals in this video.

http://www.sellingpower.com/content/video/?date=7/30/2009

Key Takeaways

- Companies want to hire A-players for their sales positions, people who can connect with the customer and help the company achieve its goals.
- Resources such as **ride-alongs**, your **sales manager**, CRM, and other technology tools can help you learn more about the company, especially during the **onboarding** period.
- **Territory management** is the practice of managing your customers in a geographic area or territory; you determine whom you call on and when you call on them to minimize your travel time and maximize your selling time.

- **Time management** is the practice of organizing and prioritizing your activities to ensure that you can achieve your goals. This is especially important in sales because your goals can only be achieved by maximizing your selling time.
- **Compensation** can include many elements such as **salary**, **commission**, **draw**, **bonus**, and more. Commission is designed to provide incentive to the salesperson to increase her income by achieving and exceeding the sales goal.
- **Key performance indicators (KPIs)** provide a roadmap to improve performance and achieve sales goals.

Exercise 8.2.1

1. Identify three resources that are available to you through your school. How do these resources help you succeed? Do you use these resources? Why or why not?
2. Go on the "virtual ride-along" with a medical device salesperson by reading this article: www.e-shadow.com/an-interview-with-a-medical-device-salesman. Discuss three things that you learned about the role of a medical device salesperson. Does this position appeal to you? Why or why not?
3. Think about a situation in which you have gone through an onboarding process. What information or resources were available to you to help you become familiar with your new environment? How did you learn about these resources? Did you use these resources after you learned your way around?
4. Visit your campus Student Services Center (or similar office) and ask about the availability of a time management seminar (most schools offer them to students at various times of the year at no cost). Attend the seminar and identify at least two new habits that you will implement into your personal time management process.
5. Using the concept of the "Sales Traffic School" discussed in the video clip in Section 1.5, which of the following activities would you classify as "red," "yellow," or "green"? Indicate your choices in the chart below.

Activity	Color (Red, Yellow, Green)
Prospecting	
Responding to customer e-mails	
Attending internal meetings	
Customer follow-up	
Writing a proposal	
Meeting a friend for lunch	
Precall research	

6. Assume you are a financial advisor and you want to earn $7,000 a month. Based on earning $1,000 per sale in commission and having a 10 percent closing ratio and an average of 2.5 calls per prospect, use the following form to determine how many sales, prospects, and calls you will need to make each month to meet your goal. Why did you choose the priority of each of your activities?

KPI Name	Calculation	KPI Goal
Monthly earnings		
Commission per sale		
Number of sales		
Closing ratio		
Number of prospects		
Number of prospect calls		
Average number of sales calls per month		
Average number of sales calls per day		

7. Assume you are a salesperson earning 10 percent commission and you have sold $540,000 in products this year. What are your commission earnings for the year (show your math). Based on this, if you were on a draw of $50,000, would you earn your draw or commission?
8. Assume you are territory manager for a health care insurance company. The activities listed in the table below need to be completed tomorrow. The time it takes to complete each activity is also included. Using the "Day Planner" below, plan your day by entering the activity in the time of day that you would use to get that activity completed. You may not have enough time to complete all activities so you will need to decide what activities will not get done (don't forget to allow time for lunch).

Activity	Comments	Time to complete activity
Travel to and from sales call	Prospect sales call	1 hour
Return call to boss	Boss sent an e-mail and asked you to call him as soon as possible	15 minutes
Check e-mails and voice mails and respond as needed	Check at least three times daily	15 minutes each time
Travel to and from customer call	Key customer call	1 hour and 15 minutes
Travel to and from customer call	Customer with low sales but high potential	1 hour
Paperwork	Complete once daily	30 minutes
Customer follow-up	Complete at least twice daily	15 minutes each
Urgent phone call	Call comes in at 10:15 a.m.	30 minutes
Internal follow-up and meetings	One meeting during the day	1 hour
Prospecting and qualifying	Allow time at least once during the day	1 hour
Precall preparation for upcoming prospect call	Prospect call is in one day	30 minutes
Write a proposal	Proposal is due in two days	1 hour
Finish up proposal	Proposal can go out as soon as it is finished	15 minutes

Day Planner

Time of day	Activity	Time of day	Activity
8:00–8:15		12:00–12:15	
8:15–8:30		12:15–12:30	
8:30–8:45		12:30–12:45	
8:45–9:00		12:45–1:00	
9:00–9:15		1:00–1:15	
9:15–9:30		1:15–1:30	
9:30–9:45		1:30–1:45	
9:45–10:00		1:45–2:00	
10:00–10:15		2:00–2:15	
10:15–10:30		2:15–3:00	

Day Planner			
10:30–10:45		3:00–3:15	
10:45–11:00		3:15–3:45	
11:00–11:15		3:45–4:00	
11:15–11:30		4:00–4:15	
11:30–11:45		4:15–4:30	
11:45–12:00		4:30–4:45	
		4:45–5:00	

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Glossary

Sample Word 1 | Sample Definition 1

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