

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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