



Functional Area #5: Total Rewards

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Key Terminology



| | |
|-------------------------------|---|
| Total rewards | Encompasses direct and indirect remuneration approaches that employers use to attract, recognize, and retain workers; “remuneration” and “compensation and benefits” have the same meaning. |
| Benefits | Tangible payments or services provided to broad groups of employees to cover common issues (e.g., retirement and paid time off), in addition to those required by law. |
| Compensation | Refers to all other financial returns (beyond any tangible benefits payments or services), including salary and allowances. |
| Perquisites | Compensation provided on an individual basis in the form of goods or services (e.g., automobiles and mobile devices). |
| Incentives or premiums | Payments in return for the achievement of specific, time-limited, targeted objectives; often calculated as a percentage of base salary and paid as lump sums or ongoing payments. |



A short (but broad) statement documenting the organization's guiding principles and core values about employee compensation

Philosophy should be:

- ✓ Equitable
- ✓ Defensible
- ✓ Perceived as fair
- ✓ Fiscally sensitive
- ✓ Legally compliant
- ✓ Easy to communicate

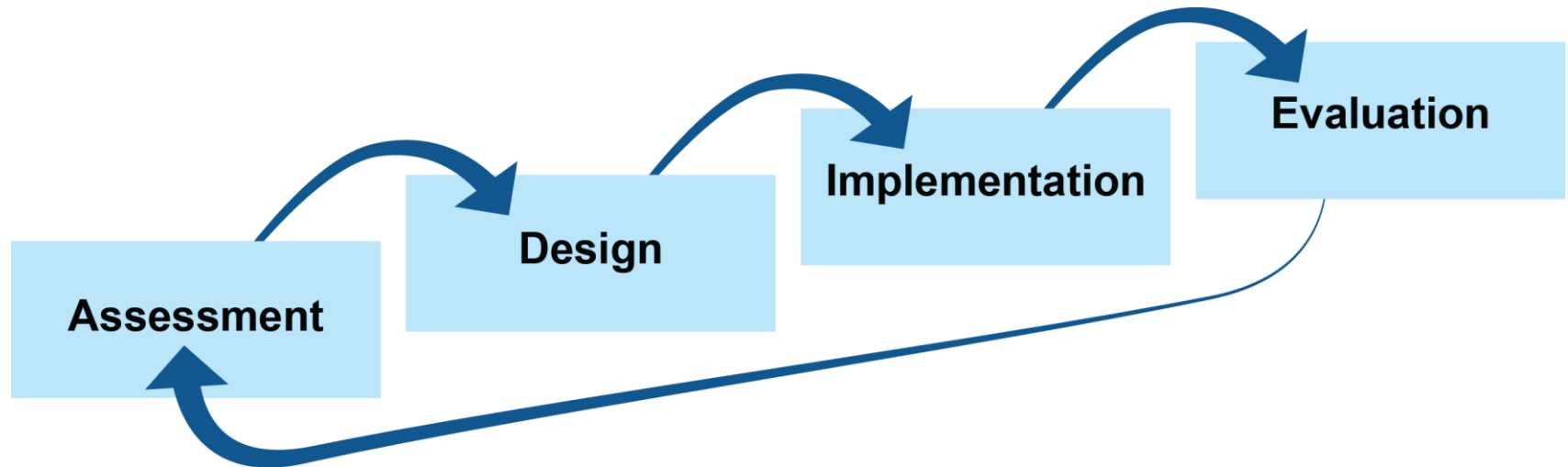
Programs offered should be:

- ✓ Fair
- ✓ Competitive
- ✓ Aligned to philosophy and policies

Process to Develop a Total Rewards Strategy



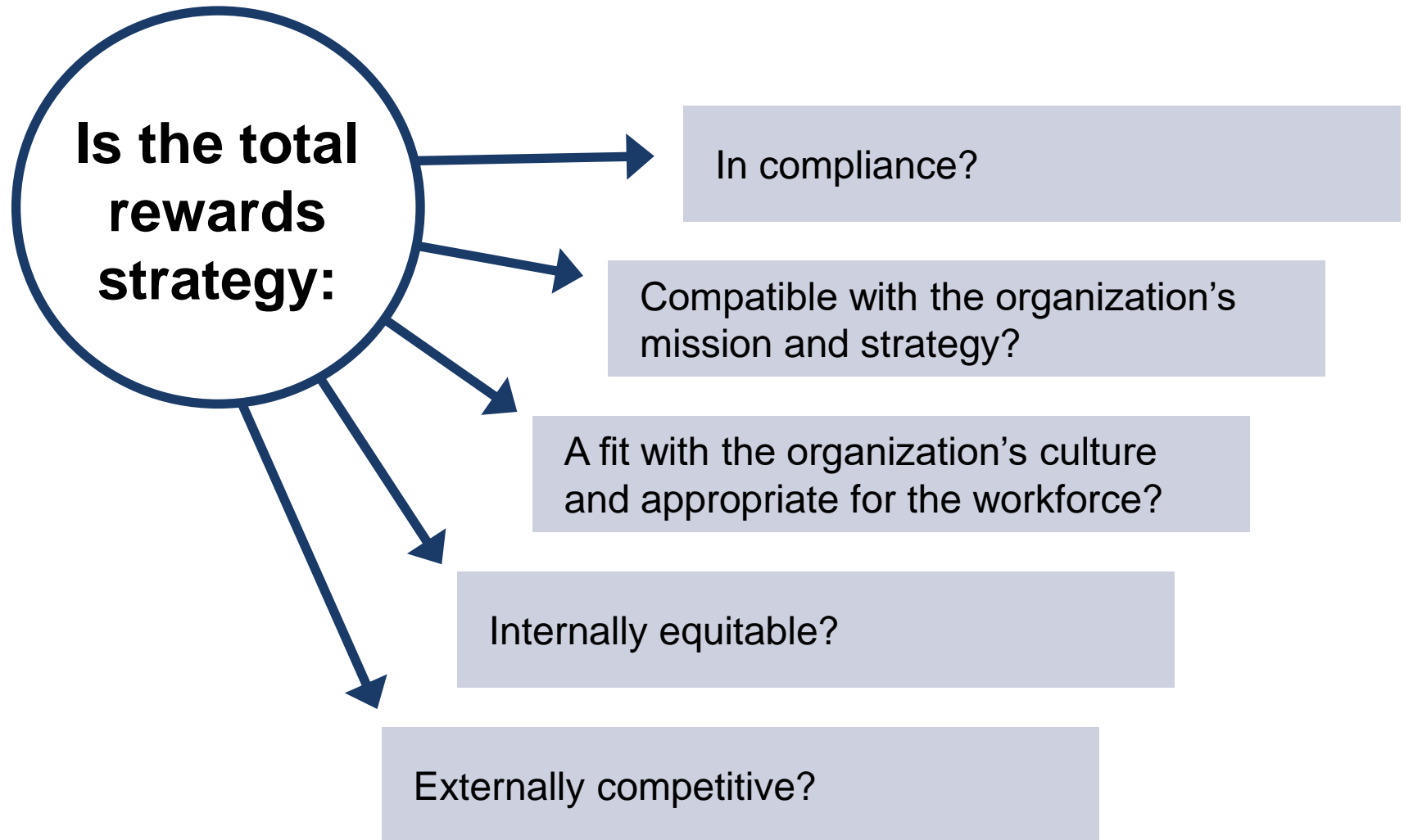
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Evaluating a Total Rewards Strategy



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Objectives of a Total Rewards Strategy



Compatible with the organization's mission and strategy

Compatible with the organizational culture
(e.g., entitlement-oriented versus contribution-oriented)

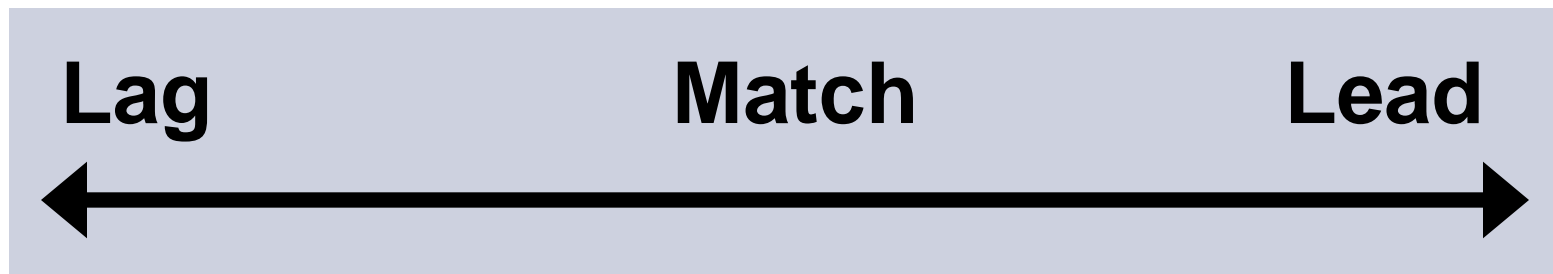
Appropriate for the workforce

Internally and externally equitable



Compares an organization to other organizations that share its industry, occupation, or location

Organizations may decide to:



Global Influences



- ☐ Standardization versus localization
- ☐ Culture
- ☐ Competitive labor market
- ☐ Collective bargaining, employee representation, government mandates
- ☐ Economic factors
- ☐ Taxation

Importance of Total Rewards Strategy Communication



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- Educating employees about the organization's total rewards practices
- Achieving employees' buy-in and making them aware of the overall value
- Supporting the organization's strategic objectives
- Supporting the organization's goals for performance management

A total rewards program is a powerful motivator when it is understood and accepted by employees.



Potential advantages

- Supports the achievement of strategic business objectives
- Reduces conflicts among employees and between employees and management regarding pay

- Can lead to jealousy and performance problems and employees questioning the system's fairness
- Poses a risk that information may be used for inappropriate or unintended purposes
- Requires protection of employee privacy and proprietary information
- Raises individual and cultural concerns about fairness in the global environment

Potential challenges

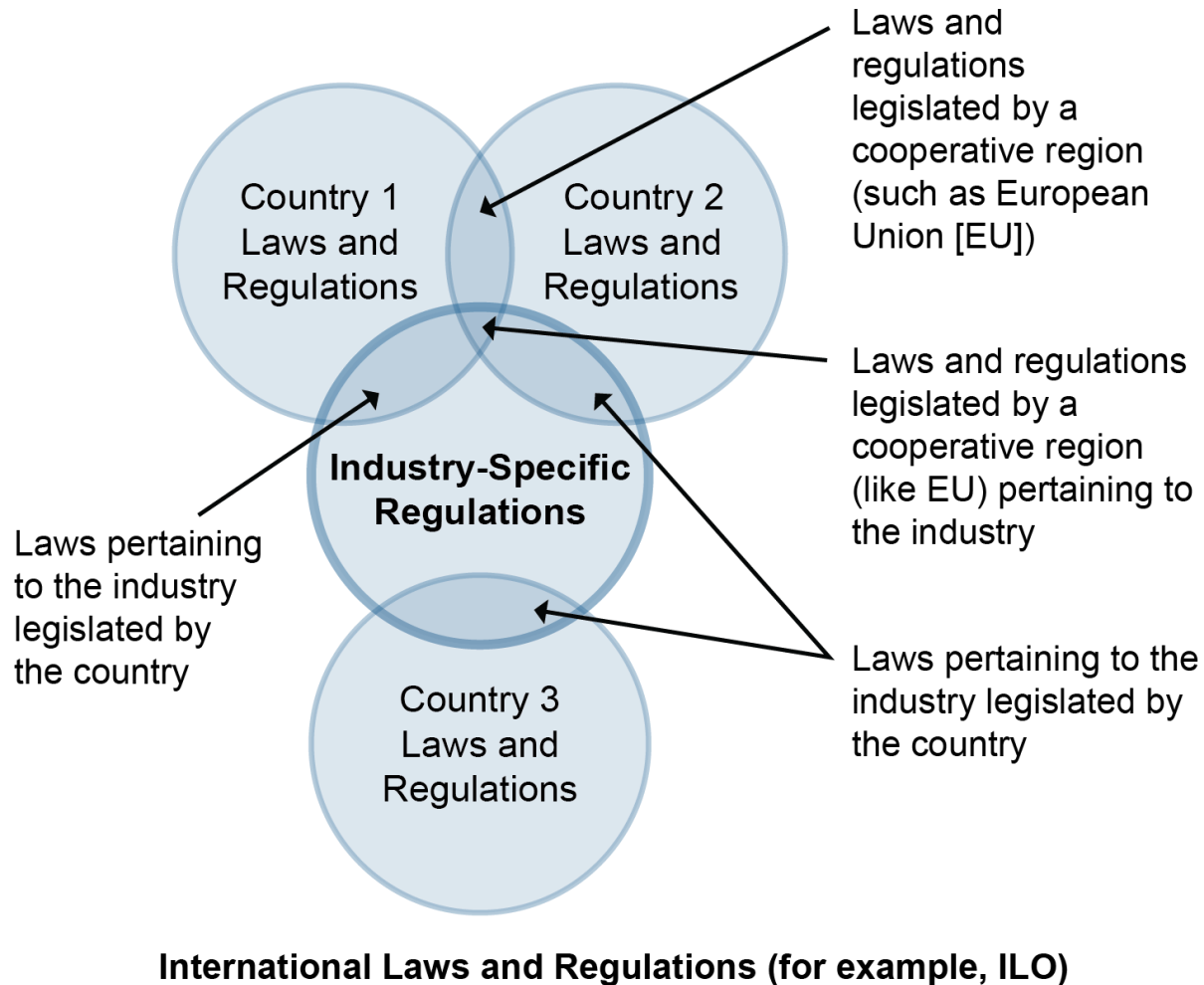


Requires attention to a variety of factors, such as:

- ✓ Type of information (required and voluntary communication)
- ✓ Communication plans
- ✓ Direct communication
- ✓ Individualized total compensation statements
- ✓ Self-service technologies
- ✓ Consistent key messages

Starts with an overarching strategy and standard implementation guidelines but adaptable to organizational specifications and local conditions and norms.

Legal Compliance Example





Due diligence should include an understanding of relevant:

- International standards and regulations.
- Extraterritorial application of national law.
- Application of national laws to international-owned subsidiaries operating within a nation's borders.





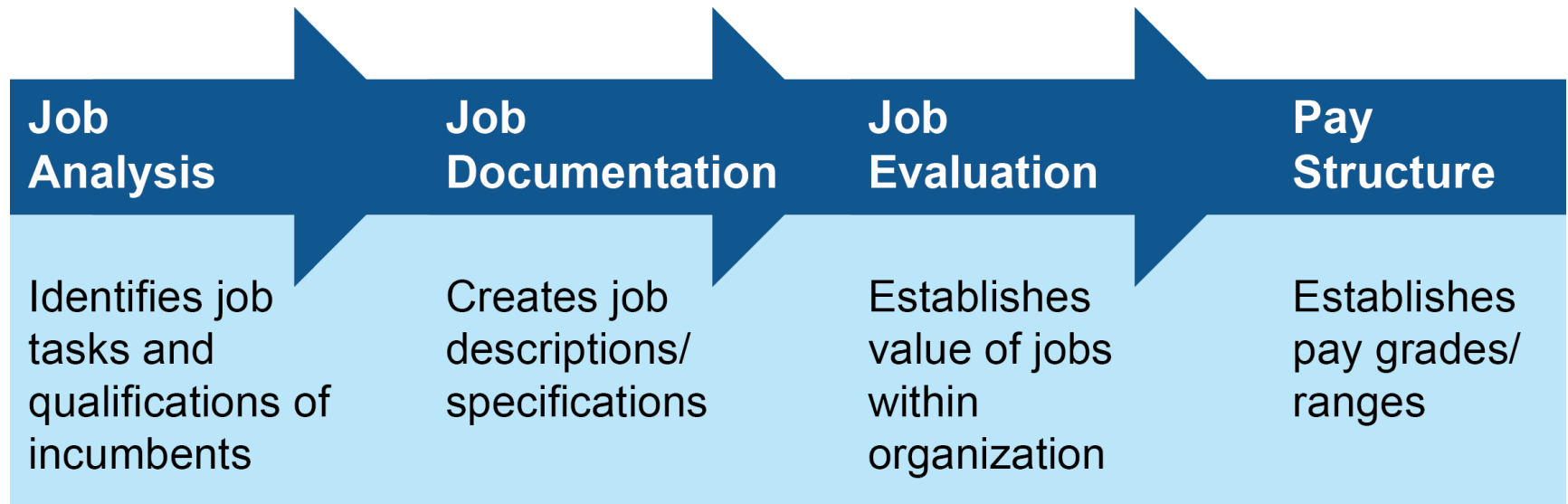
- Total rewards are a significant component of an organization's operating expenses.
- Understanding key finance and accounting terms and concepts, financial statement basics, and payroll provides critical insights.

Partnering with finance colleagues is always helpful as well as consulting “finance for non-finance professionals” resources.

Compensation System Design



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Job Analysis



Knowledge

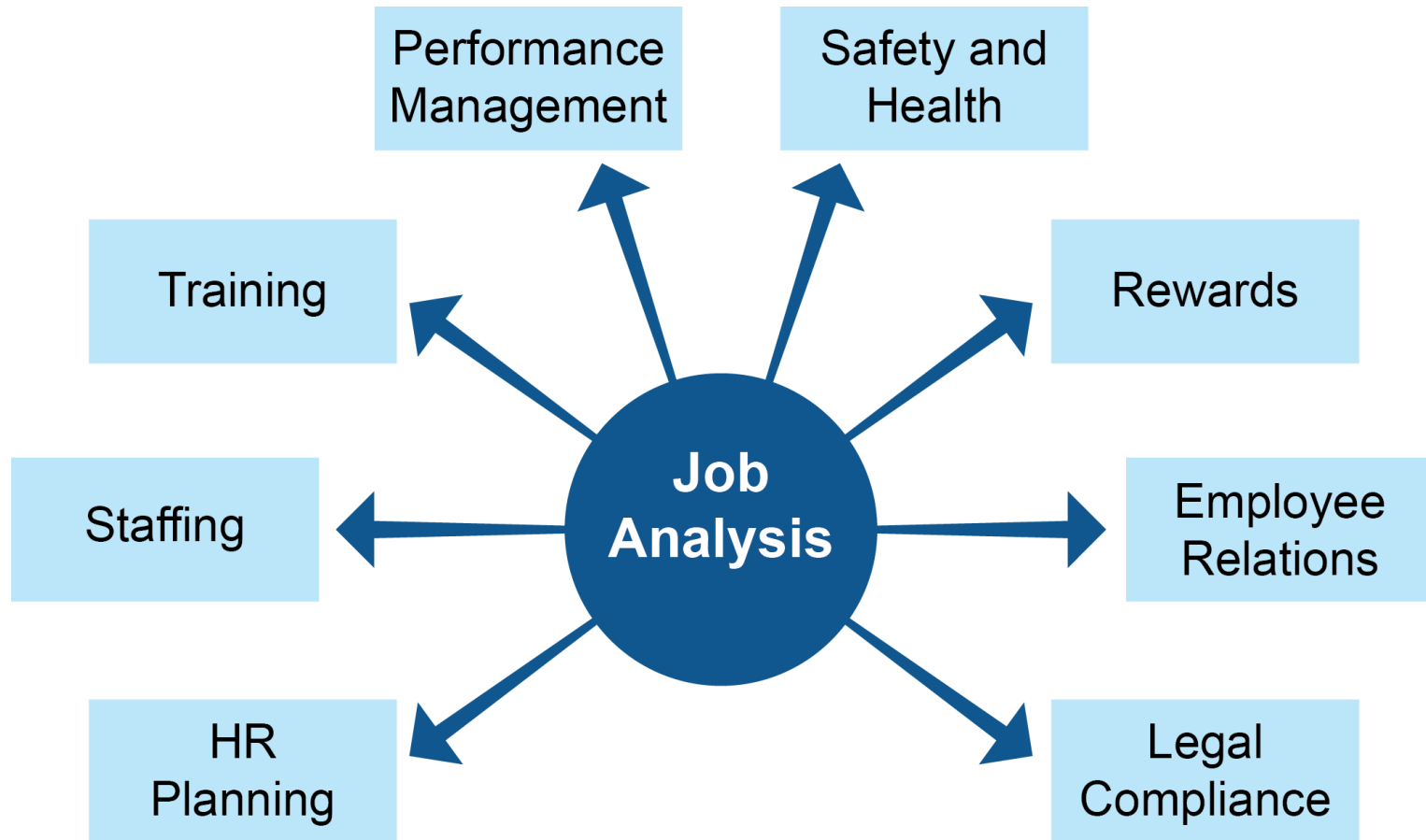
Body of information necessary for task performance

Skills

Level of proficiency needed for task performance

Abilities

Capabilities necessary to perform job





Generally gathers information about:

- Job context—the purpose of the job, its work environment, its place in the organizational structure
- Job content—the duties and responsibilities of people who hold the job
- Job specifications/qualifications—knowledge, skills, and abilities required for a person to have a reasonable chance of successfully performing the job
- Performance criteria—desired behaviors/results that will constitute performance in the job

Job Analysis Methods



- Observation
- Interview
- Open-ended questionnaire
- Highly structured questionnaire
- Work diary or log



Determines the relative worth and pay structure of jobs based on an assessment of their content and relationship to other jobs in the organization

Nonquantitative or whole-job methods

Establish order of jobs in terms of their value to the organization

For example, job ranking, paired-comparison, job classification

Quantitative methods

Use scale based on compensable factors to show how much more one job is worth than another

For example, point-factor system

Market-Based Job Evaluation



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Determines the relative worth and pay structure of different jobs based on their market value or the going rate in the marketplace

- Sometimes called “market pricing.”
- Data collection includes survey formats, survey analysis, and slotting.
- Job content or internal job relationships may be secondary considerations.



Collect information on prevailing market compensation and benefits practices

Internal surveys

Allow for more control over survey technique and data analysis

External surveys

Offer different options for externally published data

Considerations between internal and external surveys:

- Internal time and expertise required
- Relevance/match of external surveyed jobs to organization's jobs
- How current external survey data is
- Expense associated with type of survey



What are the best sources of salary data?

How much information is available?

How frequently does the market change?

Does the data for the jobs available match or compare to the ones being compared?

Data Analysis



Salary data may need to be aged, leveled, and/or factored for geography.

- Aging uses movement in market rates to adjust outdated salary data.
- Leveling adjusts salaries when surveyed jobs are similar but not identical to jobs in the organization.
- Since wage rates will vary by location, the organization should factor any national salary survey data for geography.



Benchmarking

- Initiatives range from informal networking and knowledge sharing to formal engagements with private firms.
- Helps to identify gaps in policies and procedures compared to competitors and best practices.

Other Sources

Typical sources include:

- Governments (e.g., ministries of labor or government statistical bureaus).
- International organizations (e.g., International Labor Organization).
- Membership-based business organizations (e.g., employer federations and local chambers of commerce)
- Professional, trade, and industrial associations

Creating a Pay Structure



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Establish pay grades.



- Group jobs that have the same relative internal or external worth.
- Pay the same rate or within the same pay range.

Set pay ranges.



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

Compa-Ratios



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

$$\text{\$16} \div \text{\$18} = .89 \text{ or } 89\%.$$

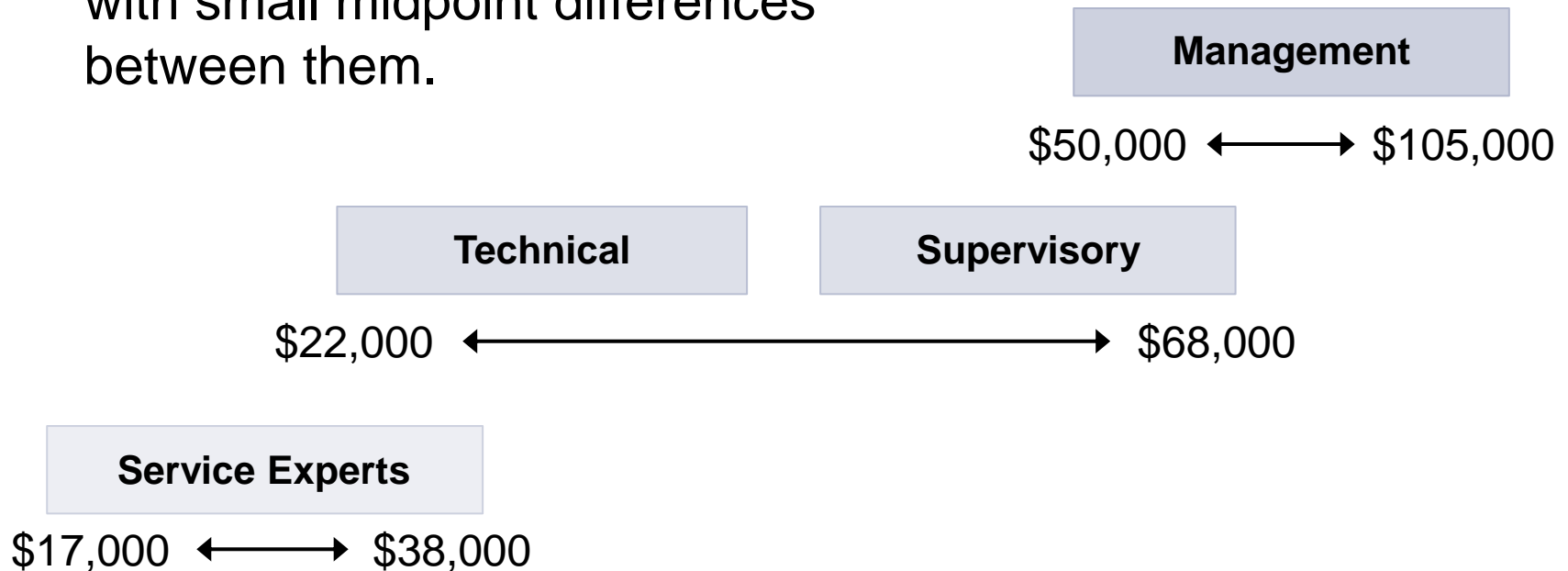
- Compa-ratios below 1.00 mean wages are below the midpoint; compa-ratios greater than 1.00 mean wages exceed the midpoint.

Broadbanding



Combines salary grades to create larger ranges

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



Broadbanding Advantages and Disadvantages



Advantages


- Provides wider ranges
- Reduces the number of job grades
- Supports de-layering
- Provides more autonomy to line managers
- Enhances employee mobility

Disadvantages

- Reduces the value of ranges
- Affords less control
- Creates overly broad ranges
- Difficult to maintain perception of equity
- Reduces the opportunity for promotion
- Can lead to divergence from the market



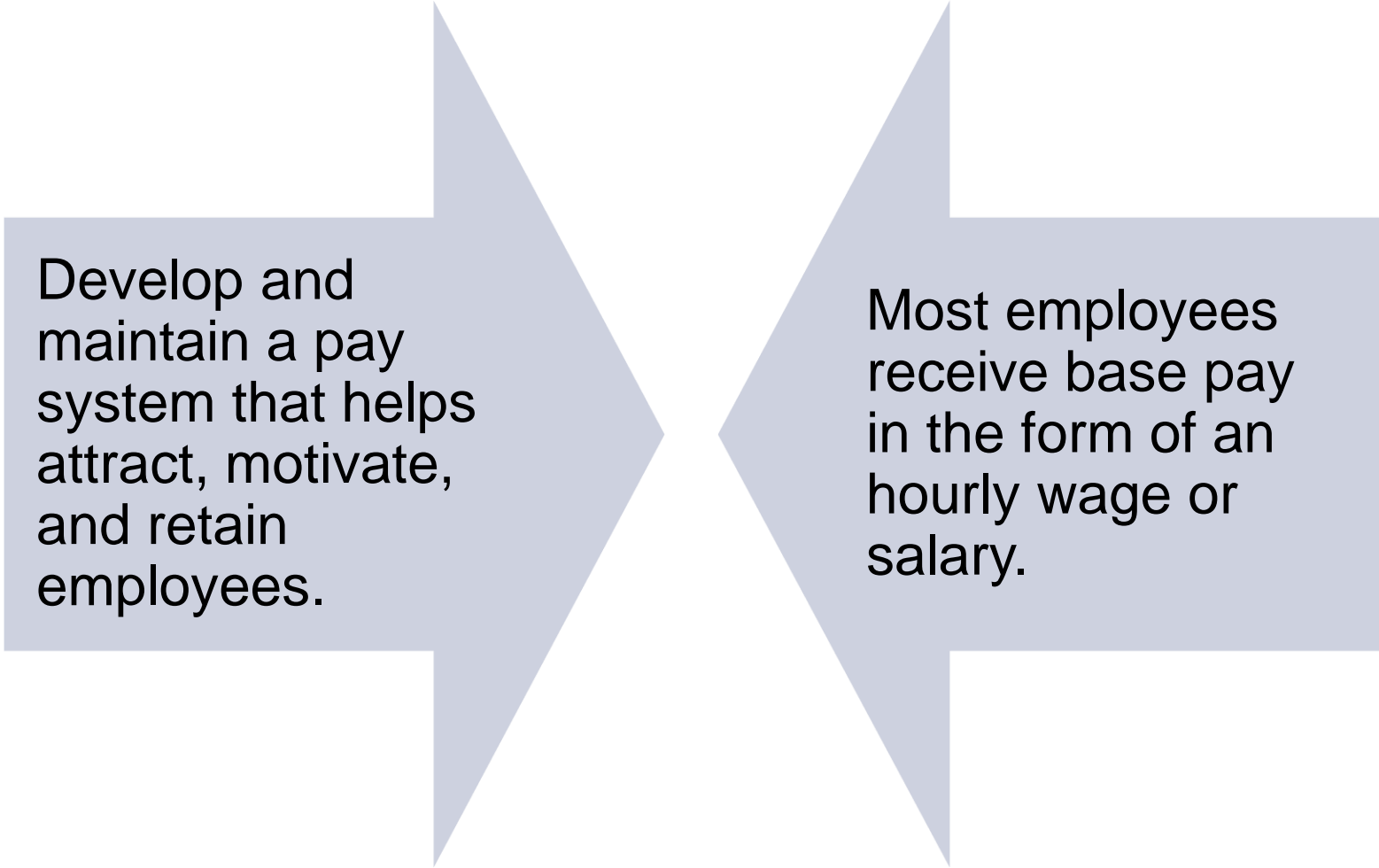
Considerations include:

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

Methods for Compensating Employees



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Develop and maintain a pay system that helps attract, motivate, and retain employees.

Most employees receive base pay in the form of an hourly wage or salary.

Base-Pay Systems



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Single- or flat-rate

- Employees receive the same rate of pay, regardless of performance or seniority.
- Generally corresponds to target market survey data for the job.
- May be a training wage in a flat-rate job.

Time-based step-rate

- Rate based on longevity.
- Increases occur on pre-determined schedule:
 - Automatic by percentage and time.
 - Affected by performance.
 - Combination of step-rate and performance (when job rate is reached).

Base-Pay Systems



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

Pay Adjustments



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**Pay
adjustment
matrix**

COLAs

**General
pay
increases**

**Seniority
increases**

**Lump-sum
increases**

**Market-based
increases**

Differential Pay



Time-Based

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

Geographic

Differentials:

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

Incentive Pay



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

Types of Incentives



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Individual

Purpose is to improve individual performance

Examples:
piece rate,
commissions,
noncash reward
programs

Group

Used when measuring individual performance is difficult or when performance requires cooperation

Examples:
gainsharing plans,
team bonuses

Organization-wide

Reward overall results

Examples:
profit sharing, stock ownership, bonus programs

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

Types of Executive Compensation



Annual salary

Stock option plans

Stock purchase plans

Restricted stock grants

Phantom stock

Restricted stock units

Performance grants

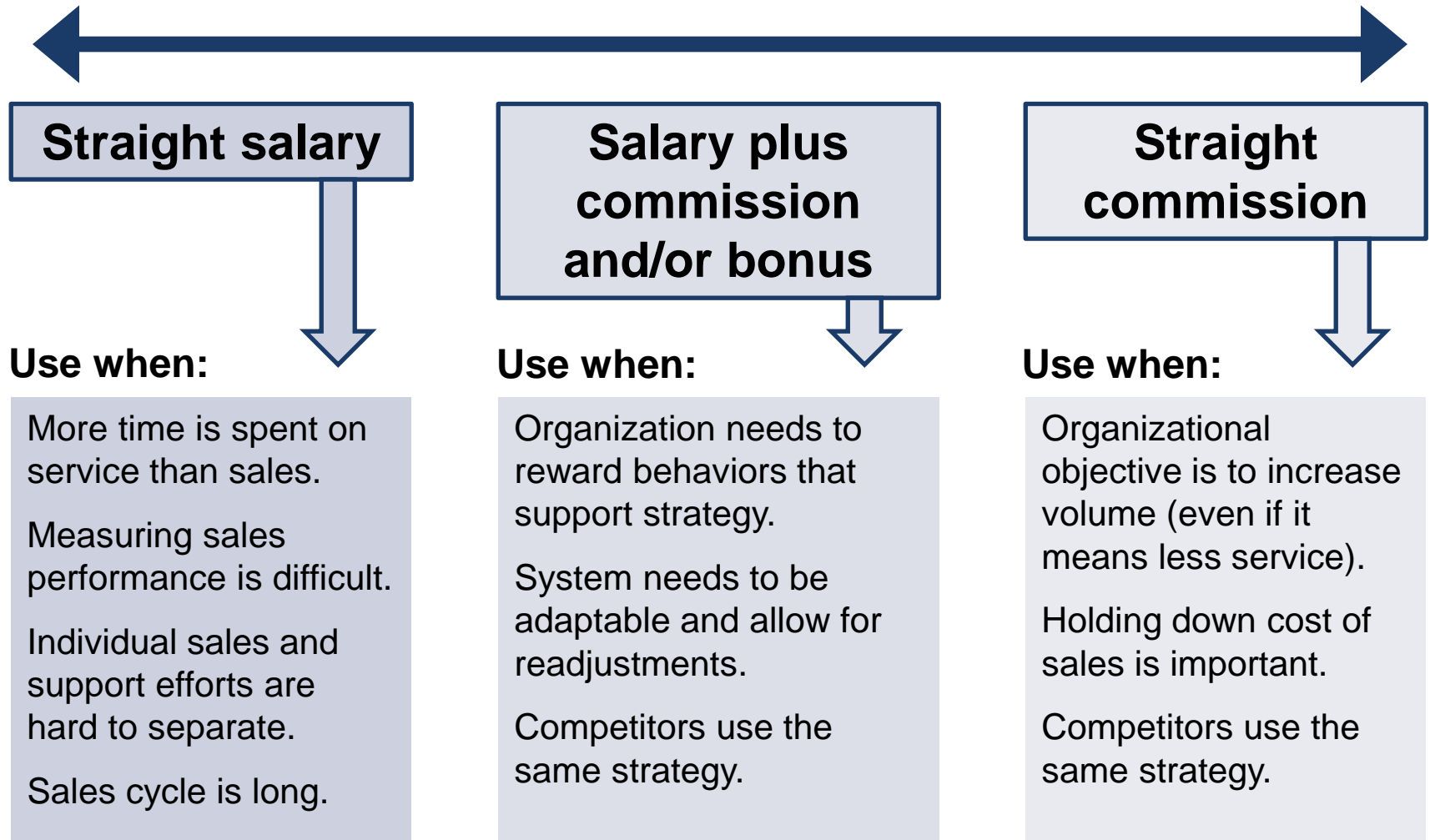
HR's role in executive remuneration varies and may include:

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

Direct Sales Compensation



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- Base pay or retainer

- Fees paid for various events or services

- Benefits (e.g., liability, life insurance)

- Perquisites

- Nonqualified stock options/grant plans

- Nonqualified deferred compensation programs

Pay Variations



**Red-circle
rates**

Rates above the range maximum

**Green-circle
rates**

Rates below the range minimum

**Pay
compression**

Small differences in pay regardless of experience, skills, level, or seniority

Common Compensation Metrics



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| Metric | Description/Formula | Strategic Value |
|---|--|---|
| Compensation ratio | <p>Relationship of current salaries to the midpoints of the salary ranges</p> $\frac{\text{Employee's pay rate}}{\text{Pay range midpoint}}$ | Allows managers to consider if employees are being paid appropriately |
| Total organization compensation expense | <p>All costs associated with employment, including salaries, overtime, benefits, and bonuses</p> $\frac{\text{Salaries} + \text{Overtime} + \text{Benefits} + \text{Bonuses}}{\text{Total operating costs}}$ | Helps an organization manage the costs associated with human capital |

Choosing Benefits/ Perquisites



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Which benefits are required by law?

Which benefits enable an employer to compete for employees?

Which benefits are cost-effective to purchase and to administer?

Which benefits do employees prefer?

Which benefits provide creative choices?



Variations in Benefits



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Government-provided benefits

Government-mandated benefits

Voluntary or discretionary benefits

Market practice benefits

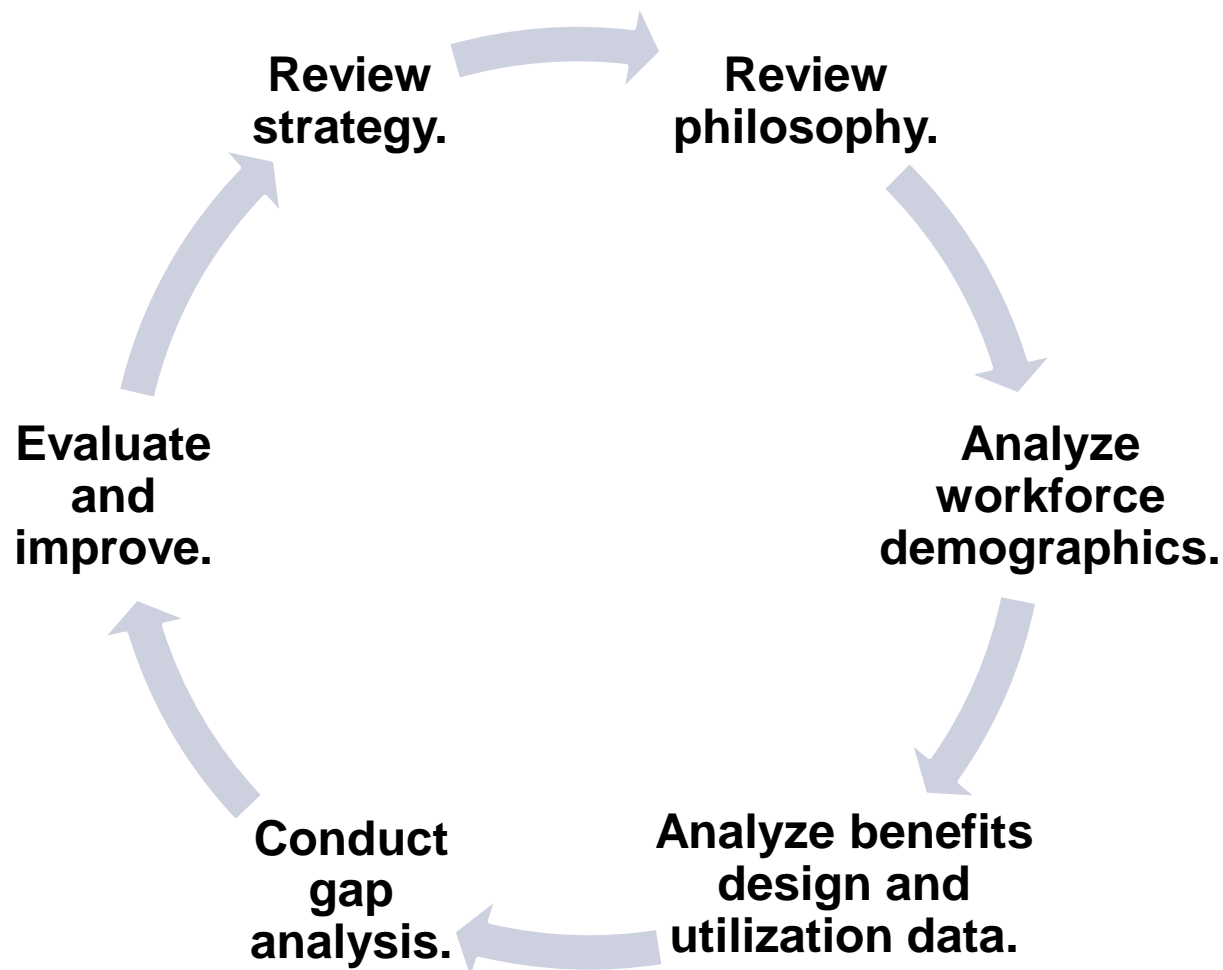
Tax treatment of benefits

Standardization is difficult because of variations in benefits.

Benefits Needs Assessment



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Paid-Time-Off and Family-Oriented Benefits

Paid time off (PTO)

Often legislated or part of collective bargaining agreements; embedded in culture and tradition.

Examples: public holidays, parental leave, leave for illness.

Family- oriented

Help employees balance work roles with family roles.

Examples: flexible work hours, child and elder care, domestic partner benefits.

Types of Benefits



| Health and Welfare Benefits | |
|------------------------------|---|
| Health | <p>Funded through social or private insurance; affected by culture and location.</p> <p><i>Examples:</i> medical, dental, wellness, employee assistance programs.</p> |
| Disability | <p>Pays employees unable to work because of illness or injuries; causes may be in or outside the workplace; may be funded by government, employer, and employee.</p> <p>Short-term, long-term, and permanent.</p> |
| Life insurance | <p>Funded through social insurance and/or private insurance; paid to beneficiary.</p> |
| Workers' compensation | <p>Pays employees portion of salary if they are unable to work due to a work-related accident or illness.</p> |



Terminations

- Voluntary terminations
 - When an employee resigns or retires
- Nonvoluntary terminations
 - When employers discharge employees for cause or workforce adjustments
- Circumstances under which an organization can terminate employment are prescribed by law and differ by country.

Severance

- If required, severance pay must be compliant and fairly compensate terminated employees to avoid discrimination lawsuits and regulatory fines and penalties.
- Circumstances, requirements, and amount varies by country; some similarities within regions.

Unemployment Insurance



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Applies toward paying a percentage of an employee's salary in the case of the employee losing his or her job through no fault of the employee.

Helps workers who have been terminated to transition from one job to another equally suitable job.

May require a waiting period; benefit period is limited, as is the financial payout.

Other terms associated with this benefit are employment insurance, job seekers' allowance/benefit, redundancy funds.

Retirement Plans



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Defined Benefit Plan

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

Defined Contribution Plan

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

Fiduciary Responsibility



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Fiduciary duty

Implies a legal obligation of one party (e.g., the employer) to act in the best interest of another (e.g., the employees).

Fiduciary

Refers to the obligated party (e.g., an individual or party entrusted with the care of money or property).

Social Security



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

Perquisites



Free/discounted products or services

Mobile devices

Professional organizations/certifications

Training programs

Education fees

Housing

Company car and/or cash car allowances

Club memberships

Meal allowances

Perquisites vary by country and culture.

Common Benefits Metrics

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

Common Benefits Metrics

| Metric | Description | Strategic Value |
|---|---|---|
| Annual increase/decrease in health-care benefit costs | Represents the expected increase/decrease in the organization's health-care expense for a given fiscal year; a comparison of the current health-care expense per employee metric to previous years and projected. | This measurement alerts an organization to the increasing costs of health-care benefits and helps the organization assess if actions must be taken to control benefits costs. |



The leader of a mid-sized organization asks HR to recommend an approach to total compensation practices for a new international location (the organization's first).



The HR director considers:

- The value the employees will add. Highly knowledgeable and talented workers will be required.
- Competitiveness in the local labor market. It's tight. Many workers will have to be lured away from competitors.
- The organization's current pay practices. In current locations, total rewards practices have lagged the market due to employer brand and significant labor supplies.
- The probable labor budget in the new location.

Discussion



- What should the HR director recommend regarding pay practices for the new location?
- What impact will this have on the organization?
- What competencies would support the HR director's performance?