



Managing Rewards for Team Members

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Compensation: An Overview

- **Compensation** - Total of all rewards provided employees in return for services
- **Direct financial compensation** - Pay received in form of wages, salaries, bonuses, and commissions
- **Indirect financial compensation (benefits)** - All financial rewards not included in direct compensation
- **Nonfinancial compensation** - Satisfaction person receives from job itself or from psychological and/or physical environment in which person works

Components of Total Compensation Program

External Environment

Internal Environment

Compensation

Financial

Nonfinancial

Direct

Indirect (Benefits)

The Job

Job Environment

Wages

Salaries

Commissions

Bonuses

Legally Required Benefits

Social Security

Unemployment Compensation

Workers' Compensation

Family & Medical Leave

Voluntary Benefits

Payment for Time Not Worked

Health Care

Life Insurance

Retirement Plans

Disability Protection

Employee Stock Option Plans

Supplemental Unemployment

Benefits (SUB)

Employee Services

Premium Pay

Customized Benefit Plans

Skill Variety

Identify Task

Significance

Autonomy

Feedback

Task

Sound Policies

Capable Managers

Competent Employees

Congenial Coworkers

Suitable Status Symbols

Working Conditions

Workplace Flexibility

Flextime

Compressed Workweek

Job Sharing

Customized Benefit Plans

Telecommuting

Part-time Work

More Work, Fewer Hours

Equity Theory

- Motivation theory that people assess their performance and attitudes by comparing both their contribution to work and benefits they derive from it to contributions and benefits of *comparison others* whom they select—and who in reality may or may not be like them

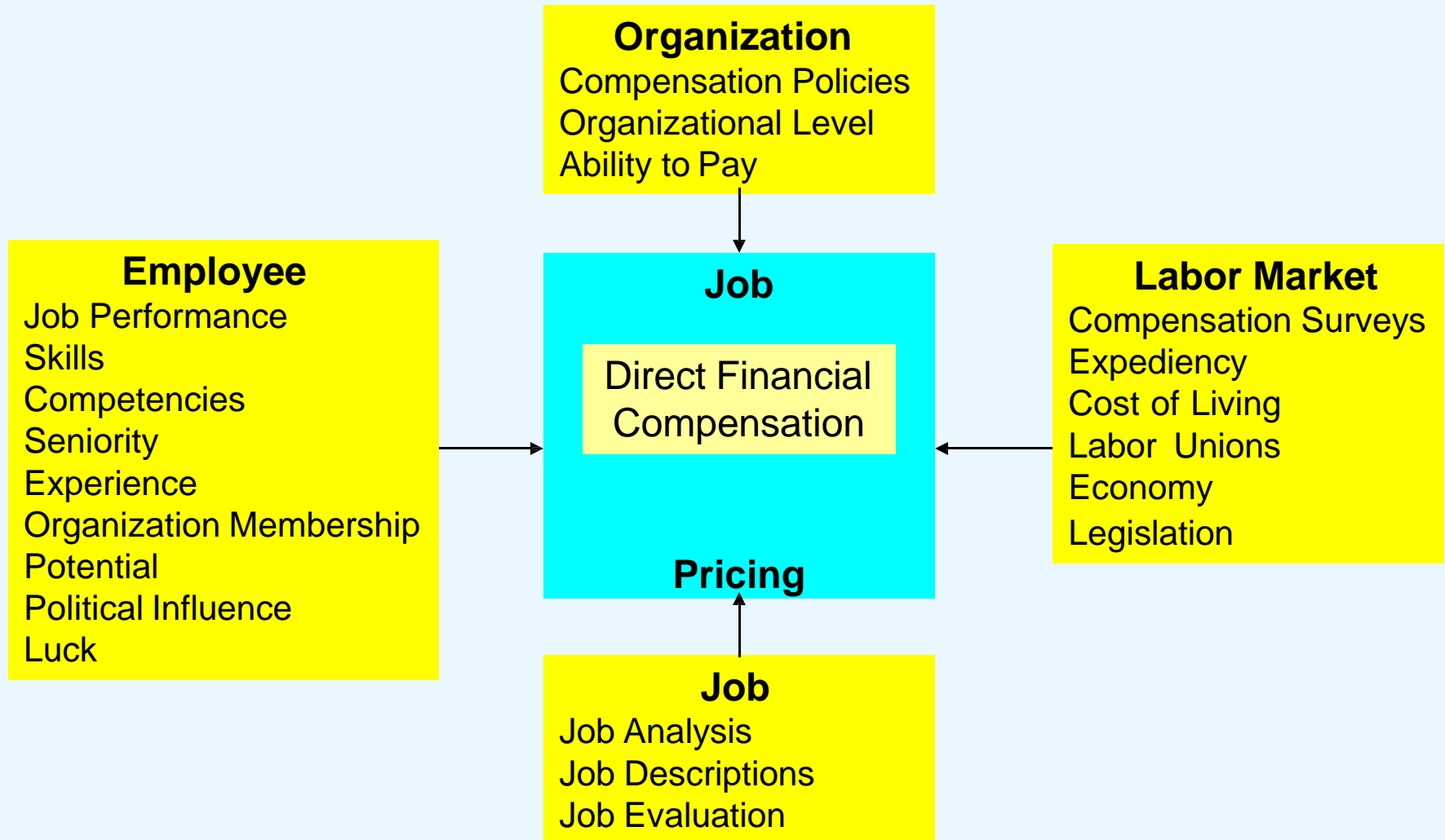
Equity in Financial Compensation

- **Financial equity** - Perception of fair pay treatment for employees
- **External equity** - Employees are paid comparably to workers who perform similar jobs in other firms
- **Internal equity** - Employees are paid according to relative value of jobs within same organization

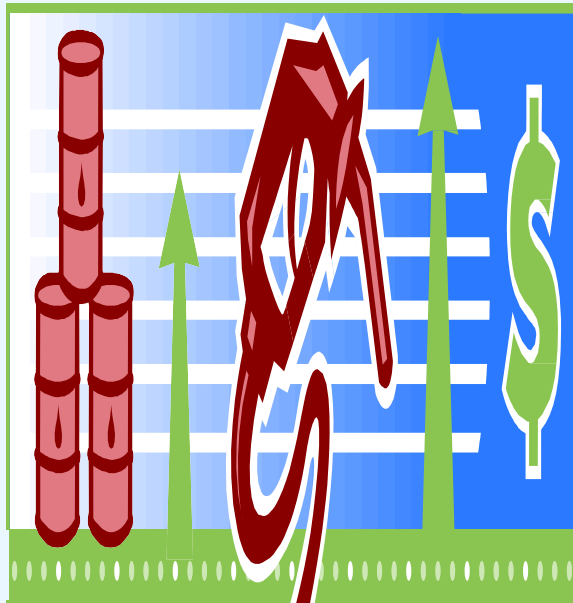
Equity in Financial Compensation (Cont.)

- **Employee equity** - Individuals performing similar jobs for same firm are paid according to factors unique to employee, such as performance level or seniority
- **Team equity** - More productive teams are rewarded more than less productive groups

Primary Determinants of Direct Financial Compensation



Organization as a Determinant of Direct Financial Compensation



- Compensation Policies
- Organizational Level
- Ability to Pay

Compensation Policies

- **Pay leaders** - Pay higher wages and salaries
- **Market rate, or going rate** - Pay what most employers pay for same job
- **Pay followers** - Pay below market rate because poor financial condition or believe do not require highly capable employees

Organizational Level

- Upper management often makes decisions to ensure consistency
- Extreme pressure to retain top performers may override desire to maintain consistency in pay structure

Ability to Pay



Organization's assessment of ability to pay is important factor in determining pay levels

Labor Market as Determinant of Direct Financial Compensation

- Potential employees located within geographic area from which employees are recruited
- Pay for same jobs in different labor markets may vary considerably

Discretionary Benefits (Voluntary)

- Payment for time not worked →

Paid Vacations, Sick Pay and Paid Time Off (PTO), Sabbaticals (in academic community → Helps reduce turnover and prevents burnout), Other forms (civic duties)

- Health care
- Life Insurance
- Retirement plans
- Disability protection

Retirement Plans



- Defined benefits plans
- Defined contribution plan
- Cash balance plan -

Defined Benefit Plans

- Formal retirement plan that provides the participant with a *fixed* benefit upon retirement
- Typically based on the participant's final years' average salary and years of service
- Use has declined in recent years although older workers tend to prefer them

Defined Contribution Plans

- Requires specific contributions by an employer to a retirement or savings fund established for the employee
- Has been a shift from defined *benefits* to defined *contribution* pension plans
- Amount of retirement income from a defined contribution plan will depend upon the investment success of the pension fund

Cash Balance Plans

- Plan with elements of both defined benefit and defined contribution plans
- Pension Benefit Guaranty Corporation usually insures cash balance plans
- Employer contributes to each participant's account annually, and investment earnings are at a set amount

Job as Determinant of Direct Financial Compensation

- Job itself continues to be factor, especially in firms that have internal pay equity as primary consideration
- Organizations pay for value they attach to certain duties, responsibilities, and other job-related factors such as working conditions

Job Analysis and Job Descriptions



- Before organization can determine relative difficulty or value of jobs, must first define content
- Done by job analysis/job descriptions

Job Evaluation

Firm determines relative value of one job in relation to another

The methods :

- Ranking
- Classification
- Factor comparison
- Point

Ranking Method

- Simplest method
- Raters examine description of each job
- Jobs arranged in order according to value



Classification Method

- Define number of classes or grades to describe group of jobs
- Compare job description with class description
- Class description that most closely agrees with job description determines job classification

Factor Comparison Method

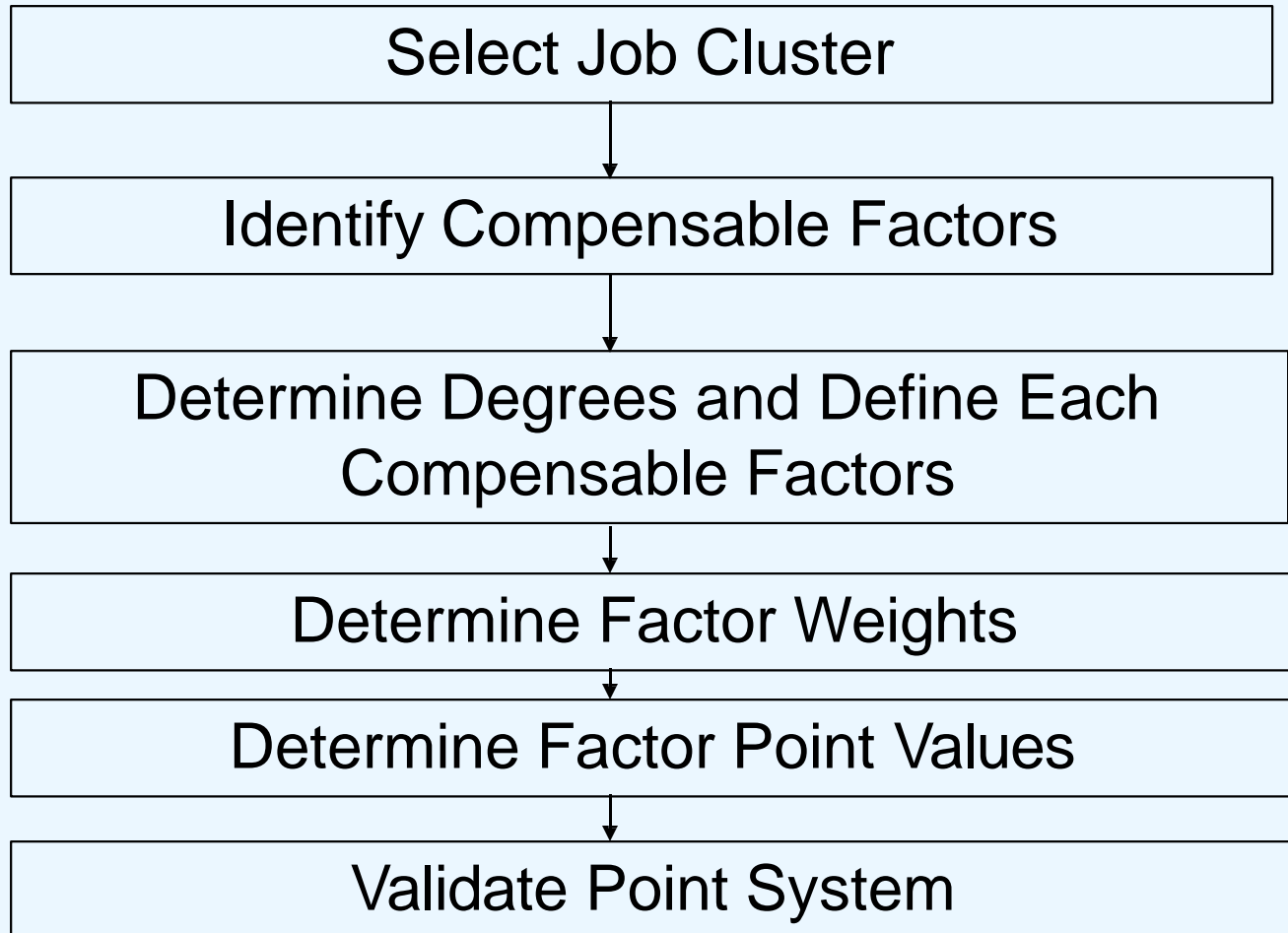


- Five universal job factors - Mental requirements, skills, physical requirements, responsibilities, and working conditions
- Raters need not keep entire job in mind as they evaluate; instead, they make decisions on separate aspects or factors of job

Point Method

- Numerical values assigned to specific job components
- Sum of values gives quantitative assessment of job's relative worth
- Job factors selected according to nature of specific group of jobs

Procedure for Establishing Point Method of Job Evaluation



Employee as Determinant of Direct Financial Compensation

- Performance—Performance-based Pay
 - Skills—Skilled-based Pay
- Competencies—Competency-based Pay
 - Seniority
 - Experience
- Membership in the organization
 - Potential
 - Political Influence
 - Luck

Performance-Based Pay

- **Merit pay** - Pay increase given to employees based on level of performance as indicated in appraisal
- **Variable Pay** - Compensation based on performance
- **Bonus** - Most common type of variable pay for performance. One-time financial award based on productivity
- **Spot bonuses** - Relatively small, gifts to employees for outstanding work or effort
- **Piecework** - Employees paid for each unit they produce

Skill-Based Pay

Compensates on basis of job-related skills and knowledge

- Employees and departments benefit when employees obtain additional skills
- Appropriate where work tends to be routine and less varied
- Must provide adequate training opportunities or system becomes demotivator

Competency-Based Pay

- Rewards employees for capabilities they attain
- Competencies include skills but also involve other factors such as motives, values, attitudes, and self-concepts
- Seniority
- Experience

Membership in Organization

- Components of individual financial compensation are given to employees regardless of particular job they perform or level of productivity, recognizes loyalty
- Potential → Organizations do pay some individuals based on potential, many young employees are paid well because of their potential
- Political Influence → Person's pull or political influence may sway pay and promotion decisions
- Luck → It certainly helps to be in the right place at the right time

Team-Based Pay



If team is to function effectively, firms should provide reward based on overall team performance

Company-Wide Pay

- **Profit sharing** - Distribution of predetermined percentage of firm's profits to employees
- **Gainsharing** - Bind employees to firm's productivity and provide incentive payment based on improved company performance
- **Scanlon plan** - Reward to employees for savings in labor costs resulting from employees' suggestions

Sales Representative Compensation

- Straight salary
- Straight commission
- Combinations of
part-salary + part-commission

Executive Compensation



Critical factor in attracting and retaining best managers
Firms typically prefer to relate salary growth for the highest-level managers to overall corporate performance

Types of Executive Compensation



- Base salary
- Short-Term Incentives or Bonuses
- Stock option plans
- Performance-Based Pay
- Executive benefits

*Thank You
and
God Bless Us
Always*

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