

Course Learning Outcomes for Unit I

Upon completion of this unit, students should be able to:

1. Prepare a corporate total compensation philosophy and strategy.
 - 1.1 Develop the steps of the total compensation strategy.

3. Investigate employee compensation strategies.
 - 3.1 Demonstrate how to research employee compensation.
 - 3.2 Apply the pay model policies used in investigating strategies.

Course/Unit Learning Outcomes	Learning Activity
1.1	Unit Lesson Chapter 2, pp. 40–62 Unit I PowerPoint Presentation
3.1	Unit Lesson Chapter 1, pp. 3–24 Unit I PowerPoint Presentation
3.2	Unit Lesson Chapter 1, pp. 3–24 Unit I PowerPoint Presentation

Reading Assignment

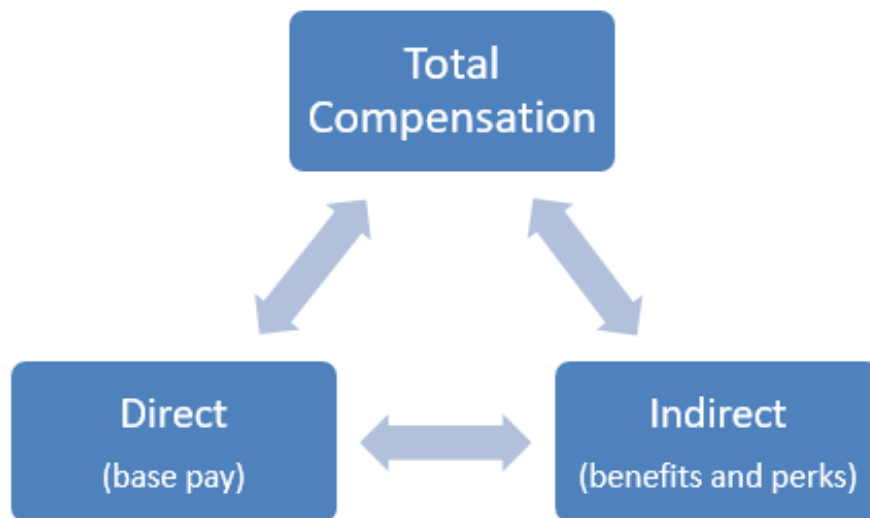
Chapter 1: The Pay Model, pp. 3–24

Chapter 2: Strategy: The Totality of Decisions, pp. 40–62

Unit Lesson

Total Compensation

What is compensation? *Compensation* can be defined as all forms of financial returns, tangible services, and benefits that employees receive due to the type of employment relationship according to contract specifics (Newman, Gerhart, & Milkovich, 2017). Compensation is made up of *direct* and *indirect* compensation forms, which make up the total compensation package. The illustration below identifies the flow of total compensation and how each contributes to the compensation package. In most cases, direct compensation will make up about 70% of the total compensation. The indirect compensation will make up about 30%. Of course, this can vary according to the percentages awarded to each benefit breakdown.



When we speak of direct and indirect compensation, we are referring to the pay and benefits awarded to the employee during the hiring process. *Direct compensation* refers to the base pay (i.e., hourly, monthly, and/or yearly pay), which is based on meeting the requirements of the position (i.e., experience, education, certifications, and/or any other requirements). This information also contributes to the position's pay grades, levels, and/or categories, which plays a crucial role in aligning the various position types and determining the value of positions within the organization. *Indirect compensation* refers to the incentives that are awarded with the position, such as health benefits, 401k, stock options, paid time off (PTO), and other perks/benefits associated (e.g., memberships, discounted products and services).

Once you have identified the total compensation, you can verify what it costs an organization per position. A lot of people think the compensation package (base pay) offered during the hiring process is what the organization pays for the position; however, that is incorrect. The total compensation is what the organization pays for and to the position. Think about the required benefits and non-required benefits (i.e., base pay and benefits, such as social security, 401k, disability, health care, pension, and PTO). Let us take a look at a registered nurse's pay for the state of Alabama below.

Registered Nurse	
Base Pay	
\$75,301.00	
With possible bonuses	\$812.00
Benefits	
\$30,003.00	
Total Compensation \$106,114.00	

The \$106,114.00 represents the total an organization pays to and for the registered nurse's position within the organization. What are your thoughts on total compensation?

Compensation Research and Resources

Other great compensation websites are PayScale, U.S. Bureau of Labor Statistics, and O*NET Online. Each of these sources are individually identified in how each can be used in developing and implementing the pay strategy. Please view the specifics for each below.

PayScale: PayScale's website provides personal, professional, and research data in the area of compensation, and various reports can be generated to identify how to attract and retain the best prospective employees with the right pay compensation. Refer to the PayScale Index for trends in compensation. The steps to access the information are listed below.

1. Access <https://www.payscale.com/>.

2. Hover over *Compensation Research*.
3. Click *PayScale Index* (the results will populate).
4. Explore the following tabs: *By City*, *By Industry*, *By Company Size*, and/or *By Job Category*.

U.S. Bureau of Labor Statistics: The website for the U.S. Bureau of Labor Statistics provides statistical data from the federal government on all reported positions within specific fields and/or industries. Some components of the data available are listed below:

- specifics of the duties and responsibilities,
- education, and
- position requirements.

Each of the components are needed in planning and implementing the total compensation pay strategy. In order to access this information, follow the steps listed below.

1. Access www.bls.gov.
2. Go to *Career Information* (located in the middle of the page).
3. Click *Occupational Outlook Handbook*.
4. Select an *Occupation Group* (located on the left of the page).
5. Select an *Occupation*.

Here, you will be able to explore six tabs of data pertaining to the position, including (1) Summary, (2) What They Do (Duties), (3) Work Environment, (4) How to Become One, (5) Pay, and (6) Job Outlook. The information can be used to conduct a job analysis, create job descriptions, and develop and assign proper pay according to grades, levels, and categories.

O*NET Online: O*NET Online is a website that provides a wealth of information used in researching positions and compensation pay strategies within an organization. One area of particular focus from this website is the *Job Zone* section. The information groups occupations into one of five categories based on levels of education, experience, and training necessary to perform the occupation. The five categories are listed below.

1. Little or no preparation needed
2. Some preparation needed
3. Medium preparation needed
4. Considerable preparation needed
5. Extensive preparation needed

Once the occupation is selected, the summary report is generated, which can be used to help conduct the analysis; develop the job descriptions; assign position codes; identify knowledge, skills, and abilities (KSAs); identify education; and—most importantly—plan and implement the compensation strategy.

Overall, each of the websites provides great information in addressing any compensation questions and/or concerns. Keep in mind that compensation strategies should align with different business strategies in order to get the best results in identifying the compensation strategy. The results can be used to help in planning your pay model and identifying, developing, and implementing the steps in the total compensation strategy. Refer to page 19 of the textbook to learn more about the pay model, and see page 50 to identify the steps of the total compensation strategy.

Compensation and Employee Motivation

With total compensation being identified, do you think compensation plays a role in motivation among the employees? Some will say compensation plays a role in motivation, and some will not; it all depends on the factors that are considered, such as personal preference, type of incentives, tangibles versus non-tangibles, and requirements.

Per Househ (2018), it is identified that only 19% of workers are satisfied with their salaries. That leaves a large number of employees dissatisfied with their salaries. Surveys, question and answer (Q&A) sessions, data/observations, and/or the use of comment cards can be used to collect the information. It has been reported that more employees wish to be able to select benefit options (i.e., base pay vs. benefits). By

allowing this option, an organization is creating the opportunity for employees to customize their own compensation packages, which motivates the employees, adds value, and creates a competitive advantage over other organizations (Newman et al., 2017). This is a part of the competitiveness of the pay model policy. So, what are your thoughts on this approach? Why do you think this can create more motivated employees?

Pay Survey

As an organization, it is important to use various techniques in identifying the reason(s) why employees are not happy. This is a part of the competitiveness of the pay model policy. A suggestion in determining the reason(s) is to conduct surveys, Q&A sessions, and data/observations or to utilize comment cards. This can easily be done with the use of various sources. For example, a survey can be conducted in-house with the use of a survey website. This source will allow you to create your own line of questions and govern how the material is collected and used to determine the desired information/outcome.

Benchmark

Another way to approach the pay model and total compensation strategy is through the use of benchmarking. *Benchmarking* is where the organization uses data from internal and/or external sources (e.g., competitors) to determine approaches used in identifying compensation pay strategies through comparison. This is a great way to collect needed data in determining pay; however, it should not be the sole method used in determining the best pay practices. The ultimate decision-making is based upon the financial data/ability of the organization; what one organization is capable of paying is not what your organization can pay. Refer to the Salary.com website to identify benchmarking pay according to entered data. Follow the steps below to access the *Compared Benefits to Industry* tab.

1. Go to www.salary.com.
2. Hover over *Personal* (located at the top of the screen).
3. Click *Salaries* (from the drop-down menu).
4. Enter job title and location.
5. Click *Get My Salary Estimate*.
6. Select one job title of your choice.
7. Click *Skip This Advertisement*.
8. Review the *Salary* and *Benefits*, which can be accessed using the navigation panel on the left.
9. Once you select *Benefits* (located to the left of the screen), click the *Benefits Calculator* tab (located at the top of the page).
10. From the *Industry* drop-down list, select the appropriate industry.
11. Enter the *Base Salary*.
12. Enter any *Bonuses*.
13. Click *Submit*.
14. Once the results are provided, review the *Define Employer Contributions* tab. The *Annual Value of Benefits* portion lists the indirect benefits. Enter data for the following fields: 401k, disability, healthcare, pension, and time off (enter as days; on average, most organizations offer 21 days).
15. Click *Submit*.

Once the information populates, you can identify with and compare the benefits to the benchmarking data. What are your thoughts of the results?

References

Househ, A. A. (2018, February). Employee blues can be cheered by more green, survey finds. *Workforce*. Retrieved from <https://www.workforce.com/2018/02/22/employee-blues-can-cheered-green-survey-finds/>

Newman, J. M., Gerhart, B., & Milkovich, G. T. (2017). *Compensation* (12th ed.). New York, NY: McGraw-Hill/Irwin.

Learning Activities (Nongraded)

Nongraded Learning Activities are provided to aid students in their course of study. You do not have to submit them. If you have questions, contact your instructor for further guidance and information.

Refer to page 30 of the textbook, and complete the following “Review Questions” for Chapter 1.

1. How do differing perspectives affect our views of compensation?
2. What is your definition of compensation? Which meaning of compensation seems most appropriate from an employee’s view: return, reward, or entitlement? Compare your ideas with someone with more experience, someone from another country, and someone from another field of study.

Refer to page 64 of the textbook, and complete the following “Review Questions” for Chapter 2.

2. Contrast the essential differences between the best-fit and best-practices perspectives.
4. Three tests for any source of competitive advantage are align, differentiate, and add value. Discuss whether these tests are difficult to pass. Can compensation really be a source of competitive advantage?