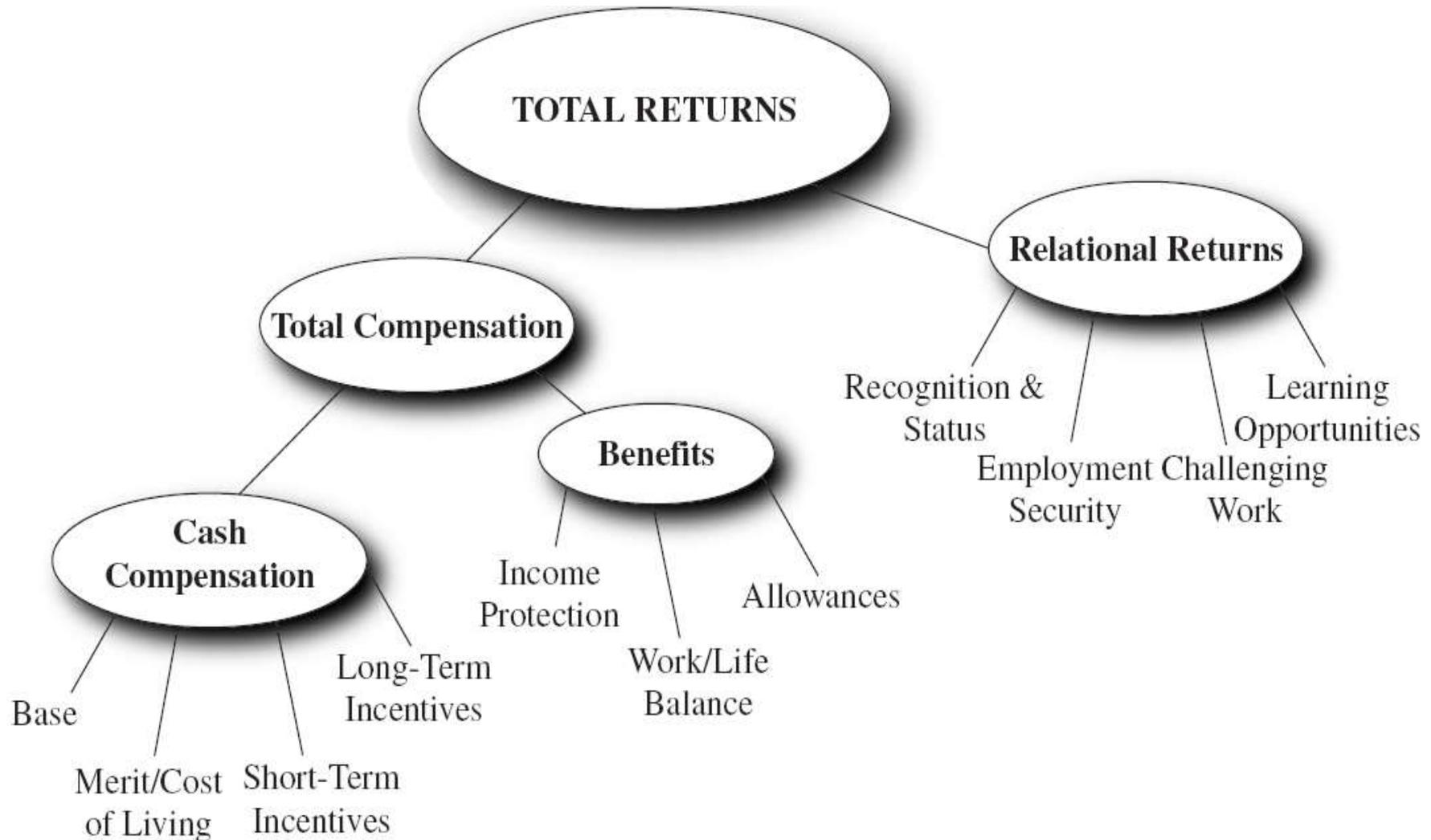


Compensation & Benefits

What is Compensation?

“Compensation refers to all forms of financial returns and tangible services and benefits an employees receive as part of an employment relationship.”

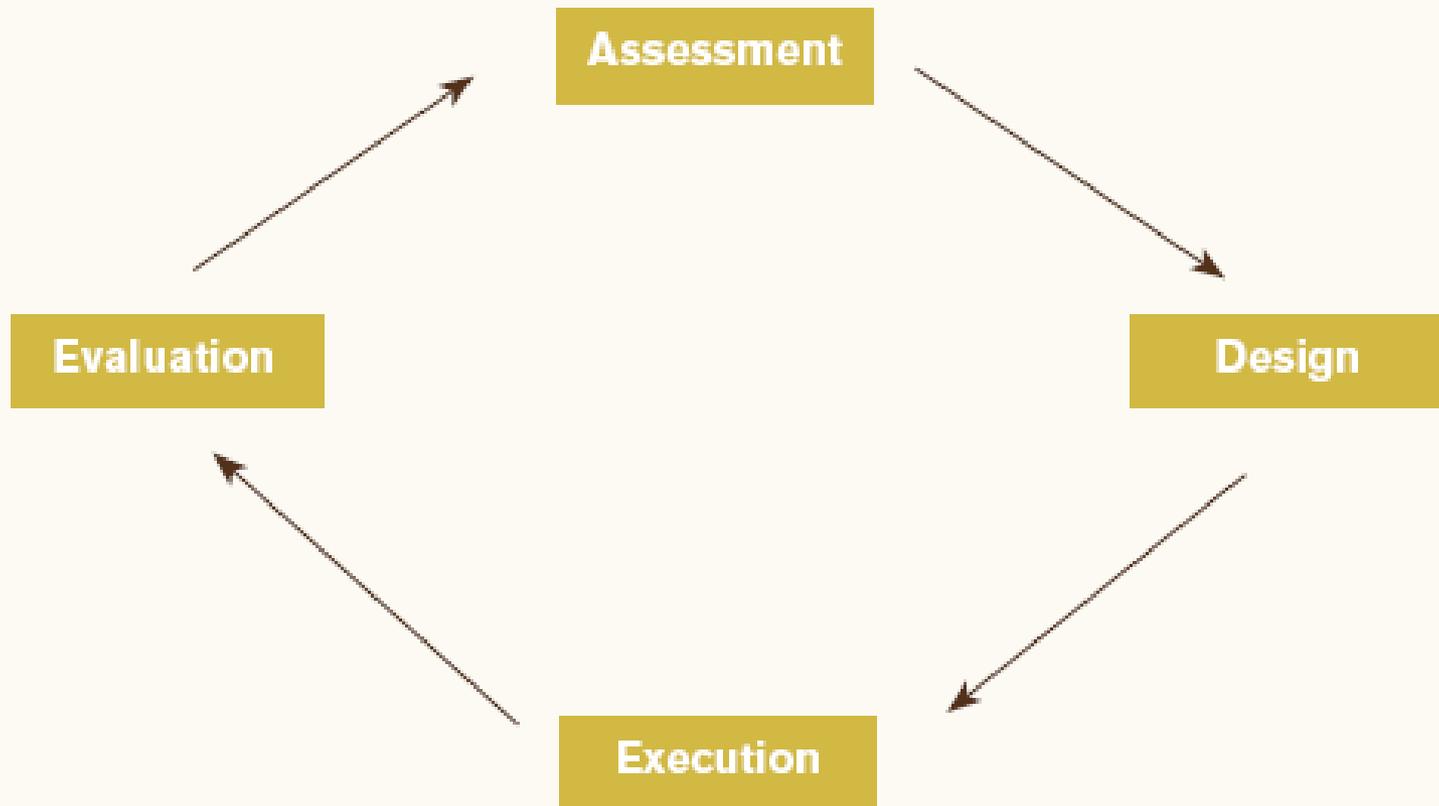
A “Total Returns” Perspective



(Milkovich, Newman, & Gerhart, 2014, p. 13)

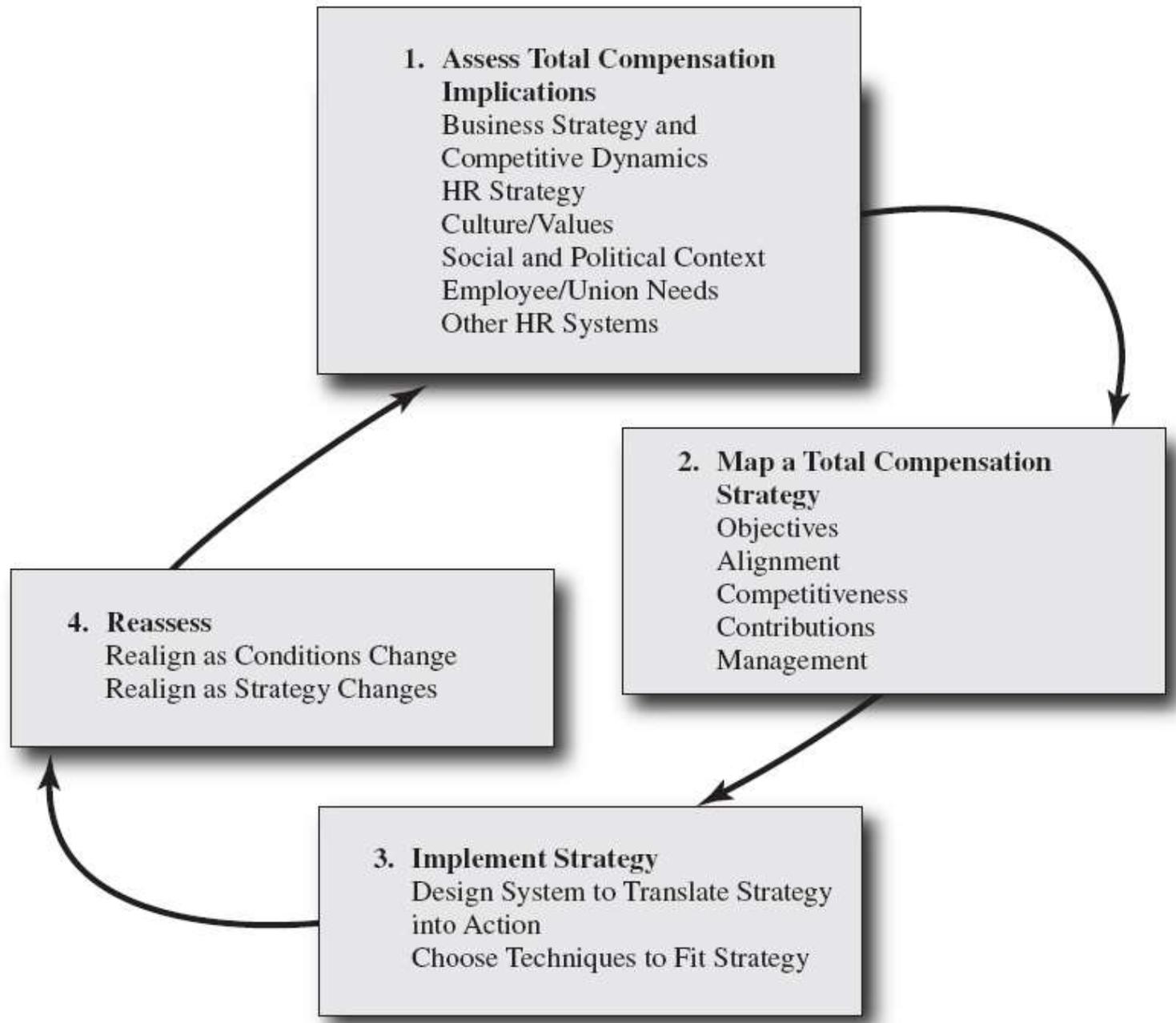
Phases in a “Total Rewards” Program

Implementing a Total Rewards Program: Four Phases



(Heneman, 2007)

Milkovich et al.,
Version of the
Same Ideas



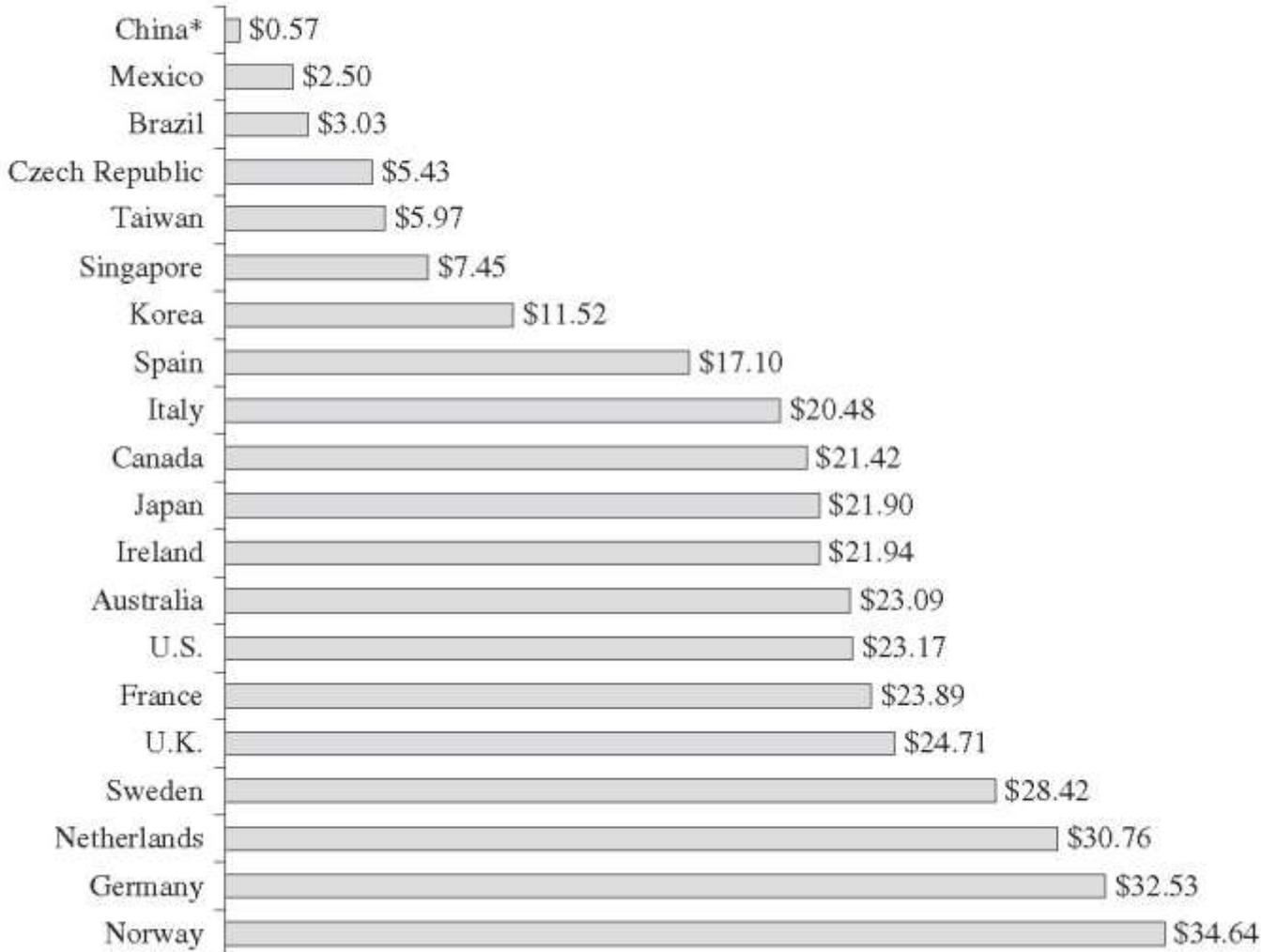
Who Are the Stakeholders?

- Management
- Employees
- Shareholders (if publicly traded)
- Taxpayers (if publicly funded)
- Customers
- Government
- Society in General

Hourly Compensation Costs for Manufacturing Workers (in U.S. Dollars)

EXHIBIT 1.1 Hourly Compensation Costs for Manufacturing Workers (in U.S. Dollars)

Source: Bureau of Labor Statistics, April 2006.



(Milkovich & Newman, 2008)

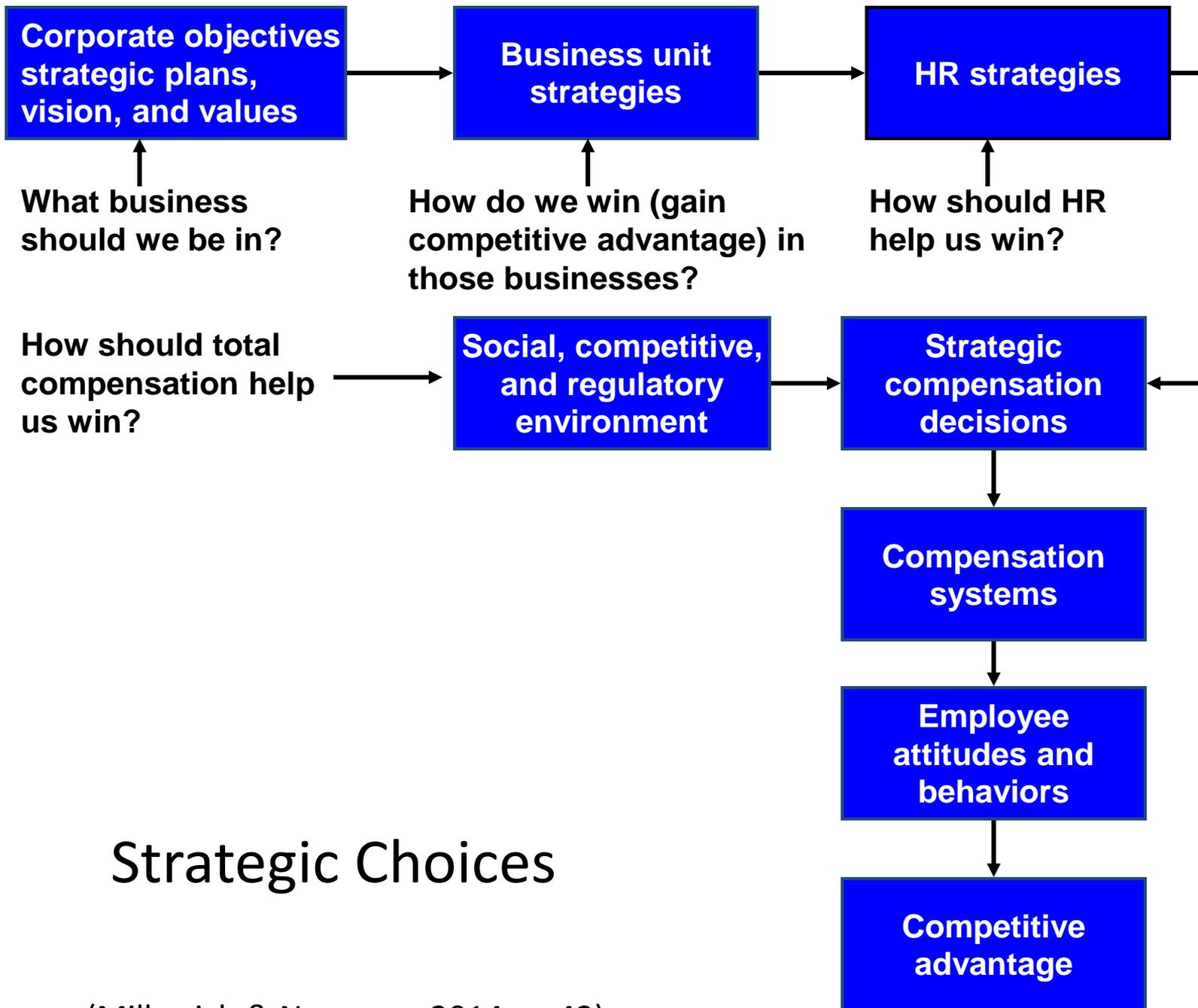
See p. 6 for updated #s

*Data on China's labor cost is an estimate from 2002 information, released by the China Labour Agency.

What is a “Strategic Perspective”?

“A strategic perspective focuses on those competitive choices that help the organization gain and sustain competitive advantage.”

(Milkovich, Newman, & Gerhart, 2014, p. 42)



Strategic Choices

Generic Business Strategies

- Innovator
- Cost Cutter
- Customer-focused

Tailor the Compensation System to the Strategy

(Milkovich, Newman, & Gerhart, 2014, p. 43)

Strategy	Business Response	HR Program Alignment	Compensation System
Innovator: Increase Product Complexity and Shorten Product Life Cycle	<ul style="list-style-type: none">• Product Leadership• Shift to Mass Customization and Innovation• Cycle Time	<ul style="list-style-type: none">• Committed to Agile, Risk Taking, Innovative People	<ul style="list-style-type: none">• Reward Innovation in Products and Processes• Market-Based Pay• Flexible – Generic Job Descriptions
Cost Cutter: Focus on Efficiency	<ul style="list-style-type: none">• Operational Excellence• Pursue Cost-effective Solutions	<ul style="list-style-type: none">• Do More With Less	<ul style="list-style-type: none">• Focus on Competitors' Labor Costs• Increase Variable Pay• Emphasize Productivity• Focus on System Control and Work Specifications
Customer Focused: Increase Customer Expectations	<ul style="list-style-type: none">• Deliver Solutions to Customers• Speed to Market	<ul style="list-style-type: none">• Delight Customer, Exceed Expectations	<ul style="list-style-type: none">• Customer Satisfaction Incentives• Value of Job and Skills Based on Customer Contact

- ✓ So strategy provides the overall context and framework to guide HR decisions, including compensation.
- ✓ There are many alternatives to achieve the given objectives, even when using the same strategic approach, therefore...
- ✓ We value processes and activities to create a rational, coherent, or “fair” system that can be communicated effectively, attracts and retains key talent, and increases or maintains participants’ motivation and performance.

Policy Choices

- **Objectives** – How important total compensation is in achieving overall HR strategy
- **Internal alignment** - Consistency of comparisons among jobs/skill levels inside an organization (a.k.a. “internal equity”)
- **External competitiveness** - Consistency of comparisons of similar jobs between organizations (i.e., “the market”; a.k.a. “external equity”)
- **Employee contributions** - Comparisons regarding performance and compensation between individuals (a.k.a. “individual equity”)
- **Compensation Management** - Policies to ensure “the right people get the right pay for achieving the right objectives in the right way”

The Three Tests

- Aligned - With business strategy? Externally with economic/political/social conditions? Internally with the overall HR system?
- Differentiate – Does it set the organization apart in a way that is hard to copy?
- Add value – But what “counts” in efforts to assess return on investment (ROI)?

Research indicates the important role of context on all of these issues!

Their preferred question:

“What practices pay off best under what conditions”?