

Compensation plan proposal

Business



Building a Lasting Compensation Plan Building a Lasting Compensation Plan
Compensation plans are as varied as the companies that implement them. They reflect a company's culture, financial strategy, organizational structure and goals.

Compensation plans serve as the catalyst for employees to join a company and remain, which in turn enables the organization to fulfill its obligation to provide goods and services. Developing an effective compensation plan requires thorough preparation through several steps.

These steps include: determining job value, determining overall pay, determining individual/Team pay, pay delivery, and managing pay (Milkovich, 2011). Also important is the order in which these steps are completed as each step provides the preparation and data for the next step. Completing these steps out of order may lead to discrepancies within the plan and not doing all the steps may result in inconsistencies and unfair pay practices.

To illustrate the compensation plan steps we will use fictitious company Ben's Bakery, a midsize company employing approximately 1,500 people.

Ben's Bakery has been in business for 15 years in Oxnard, California and was founded by CEO, Ben Bluebacher. Ben's Bakery is headed by Ben and his board of Vice Presidents representing operations, sales, marketing, human resources, and finance divisions. The operations division, largest in the company, represents approximately 1,000 employees and is in the process of reassessing their compensation program. Operations consist mainly of non-union, non-exempt workers with an average seniority of 6 years.

There is ten management staff representing 1% of the operations workforce. The Operations division compensation plan has not been updated in 5 years and is currently not on track with comparable industry or geographic organizations. The executive team has asked Human Resources to conduct a full audit using the standard five compensation plan development steps and to provide a recommendation for changes within 60 days. Determining Job Value The most critical step in starting a well thought out compensation plan is understanding all the positions in a company.

Conducting a job analysis is the foundation for each subsequent step of plan development. During analysis, data is collected on all aspects of a job or series of jobs.

It begins with general information such as job titles, department, and how many people hold that job. This is called job identification. The purpose of job identification is to bucket jobs into job families such as marketing, office support, or operations. Once the job families are identified, each job is then broken down to determine its content. Tasks, skills, and competencies make up the content.

A job based analysis looks at tasks a person completes and a person based analysis looks at skills and competencies required to perform that role.

In conducting an analysis of Ben's Bakery, a job based analysis will provide the best results as the targeted positions are task oriented versus behavior oriented. There five jobs being analyzed are delivery driver, baker helper, shipper/receiver/packer, quality control technician, and maintenance

mechanic. During analysis, key tasks are identified which will become the essential elements of that job.

These elements are those tasks that cannot be reassigned to other workers. For example, the quality control job requires employees have 1-3 years experience or recent college graduate work, and be proficient in the application of tools, resources and methodologies in all quality assurance related areas.

Once the analysis is complete, job descriptions are crafted from the data to organize each job's profile. This profile tells the employee what the job entails and what they will be evaluated against during the performance review period.

The job description aids the recruitment staff in attracting qualified employees and provides the basis for performance management evaluations and performance discussions. The last step in determining job value is evaluating the job and assigning it a value within the organization. This is typically accomplished using both internal and external benchmarking criteria. For Ben's Bakery, an external benchmark of like jobs will be conducted using other local food production plants as a measuring tool.

The resulting benchmark data provides Ben's Bakery a range of pay for each of their five benchmark positions. For the internal evaluation, a paired comparison ranking method (Milkovich, 2011) will be the simplest approach and can be accomplished with fairly accurate results because there are a small number of jobs and each of the jobs has been thoroughly assessed. |

Table 1						S/R/P		Driver		Baker		Mechanic			Quality Control		Q		Q		Q	
	M				S/R/P		S/R/P		S/R/P		M				Driver		B		M			

The ranking results in Table 1 tell us that our five benchmark jobs are ranked in the following importance: maintenance mechanic (4), quality control technician, (3), Shipper/Receiver/Packer (2), Baker (1) and Driver (0). These jobs comprise part of the operations division pay grade classifications. Each of the benchmark jobs has a lead, supervisor, manager, operations manager, and vice president. These positions comprise the management staff and make up our second classification.

Marketing and Sales make up the third classification, and Human Resources, Legal, Administration, and Finance make up the fourth. With these classifications, the pay structure and pay value can be developed. Determining Overall Pay The first step in determining overall pay is to develop the pay philosophy. The pay philosophy serves as a road map for the company to determine the rest of the compensation plan. The pay philosophy provides employees with an overall picture of their company’s approach to compensation and the reasoning behind their decisions.

Surprisingly, many employees have little or no real understanding of their compensation package. They know what they are supposed to be paid, but not the reasoning behind the decision to pay them that amount. In a 2010 WorldatWork survey of its 5, 232 members (31% responded), the answer to the question “ To what extent do employees understand the company’s compensation philosophy? ” produced the following results. [pic] Only 29% of the organizations felt most or all employees understood their compensation plan.

This is a decrease of 6% from 2003 when the same survey produced results of 35% (WorldatWork, 2010).

What this survey might lead us to believe is that more organizations are doing a worse job of explaining their compensation plans. While there is no evidence to suggest the cause of this decrease, one could surmise that economic conditions and the rise in health care costs have many organizations running for cover to avoid talking about the negative impacts to their plans.

In developing their pay philosophy statement, Ben's Bakery made the decision to keep it simple:

- Ben's Bakery will endeavor to pay competitively
- Ben's Bakery will provide a fair and competitive benefits package
- Ben's Bakery will seek ways for employees to participate in the growth of the company

Using the recent benchmark job survey data, a revised pay structure for the operations division can be developed taking market data and Ben's Bakery pay philosophy in mind. | 14. 24 | 15. 0 | 16.

22 | 22. 05 | 25. 34 | | 11. 76 | 13. 33 | 14. 24 | 18.

95 | 21. 79 | | 9. 53 | 11. 74 | 12. 37 | 16.

16 | 18. 37 | | 8. 59 | 10. 46 | 10. 77 | 13.

84 | 15. 1 | | 7. 59 | 9. 48 | 9. 52 | 12.

06 | 13. 06 | | Delivery Driver | Baker Helper | Shipper, Packer, Receiver | Quality Control | Maintenance Mechanic | | | | Technicians | | Ben's Bakery, while not union, does utilize a seniority based advancement process.

Advancement steps are based on 50%, 60%, 70%, 80%, 90% and 100% of the pay range. New employees come in at the 50% mark and can advance each year until they reach 100%. Since the advancement rates are determined by market standard, the structure is updated every year. If the structure rate falls below the current year's rate then that rate is frozen and will not be decreased.

For Ben's Bakery, using this approach to salary increases is projected to reduce turnover from 18% to 10%. It also helps keep Ben's Bakery from becoming unionized which is a priority with the executive team.

The last step in determining overall pay is developing a performance management process viewed as fair and consistently applied to all employees. Performance feedback is important to the employee. It tells them how and where they stand in the company and the evaluation provides management a tool to equitably assess employees' performance both individually and across like jobs.

This is crucial during times of promotion, demotion, layoffs, or monetary pay out. Determining Individual/Team Pay

Excluding benefits, the average employee at Ben's Bakery will be compensated in two ways; base pay and a pay for performance incentive based on Halsey's 50-50 method (Compensation, 2011). Halsey focused on time studies of the tasks associated with a job. Once established, these time standards can be used by the employee and employer to identify different levels of performance and any associated compensation that may come once

the employee reaches a certain level. At Bob's Bakery, drivers work towards a standard based on the number of trips per day delivering product.

For example: | 12 trips per day | No additional pay | | 14 trips per day |\$50 dollars | | 16 trips per day |\$75 dollars | Any additional pay is negated if the driver receives traffic or parking tickets, receives complaints concerning customer service, or behaves carelessly in any way.

Pay Delivery The most important step in the delivery of pay is the communication plan. Communication and the employee's understand of the compensation process is critical if the plan is to be accepted (employee satisfaction) and successful (executed properly). An open and effective communication plan has many benefits (Argrela, 2011):

- System openness greatly improves understanding and ...supports credibility.
- Helps eliminate inaccuracies and conjecture among employees.
- Improves consistency of management's efforts and relationship with employee(s).

Reduces administrative effort.

- Aligns well with 90's concepts of individual quality, accountability, employee/team empowerment.
- Better motivates employees and relates them to the business.

Complimenting the communication plan is the actual process of receiving and managing the compensation transaction. Clearly defined pay processes are important to the employees so they can plan their current and future financial needs and is legally sound for the company to protect itself from misconduct.

These pay processes may include:

- Schedule of base pay
- Process for corrections to base pay
- Regular or spot pay outs (bonuses or incentives)
- Benefits transactions (pay deductions, enrollment schedule and restrictions,

pre- and post tax savings, etc.) Ben's Bakery publishes a yearly statement which includes highlights of that year's company performance. Included in this statement is a summary of overall base pay, bonuses/incentives, and benefits shown against company profits.

Ben's Bakery wants their employees to understand the relationship of compensation to company profits as they feel this will show good faith and openness on their part and support any unpopular decisions they may need to make in the future. Key information about pay delivery can also be found in the employee handbook which is published online at the company's employee intra-net portal.

Managing Pay The final step in the compensation plan process is managing the pay. This is the sustainment strategy and plan that keeps the compensation process alive and relevant for both the company and the employee.

Because compensation can be affected by so many external forces, it is critical to periodically assess the plan's effectiveness. Conducting analysis of the five benchmark jobs every three years will help keep the pay structure in alignment with both Ben's Bakery pay philosophy and the market. Ben's Bakery will need to monitor the downstream effects of their pay philosophy.

Can they continue to pay market salaries? Do they need to increase employee contributions to the benefits package due to rising health care costs? Is their 401K provider getting acceptable results for their employees?

Are the executives paid proportionately compared to other employees? Is Ben's Bakery considering any substantial growth initiatives? Conclusion A

company's compensation plan can tell a prospective employee a lot about that company, its financial viability, and its attitude towards its workers. For existing employees, a company can increase employee satisfaction with the compensation plan if they take the time to help the employee understand their compensation package, how it was determined, and what they need to do to take full advantage of its benefits.

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