

Compensation decision making analysis



**ASSIGN
BUSTER**

Chapter 10 Explain why an organization must relate to a variety of labor markets when conducting a compensation survey. In setting pay, it is important that it is competitive, meaning that pay must help the organization attract and keep the employees it needs. Because of this, the organization must determine which organizations hire similar employees to perform similar jobs. Usually there are organizations in several different labor markets which are competing with us for the same type of employee. Quite diverse organizations can have the need for the same type of employee with a specific skill set. If we also have a need for such an employee to fill a job, we cannot effectively set pay for that job unless we survey these organizations, which are in different labor markets. Also, in developing a compensation survey, it is also possible that employees needed to fill one type of benchmark job are in demand in certain labor markets, and employees needed to fill another benchmark job are in demand in other labor markets. For both of these reasons, namely that we may be competing with different organizations in different labor markets for one type of employee, and also that we may compete with different organizations in different labor markets for one job in the organization versus another, organizations must relate to a variety of labor markets when conducting a compensation survey.

2) What is meant by the scope of the survey? Describe some factors that affect the scope of a survey.

The scope of the survey is really about defining what information is most important to be gathered in the survey.

The process begins by looking at which pay areas are the most critical for the organization. In other words, it is looking at where the organization

seems to be less effective in competing in the external market. An important indicator of a problem may be the inability to hire qualified applicants and/or high turn-over rates. These are common indicators that the pay set for that job may not be competitive. Another possible indicator of a problem could be low productivity or poor quality.

After addressing the main needs inside the organization, it is necessary to look outside the organization and to define the scope of the organizations that should be included in the survey.

Chapter 11

1) Why would an organization use more than one pay structure?

Often the organization decides that it is best to use different job evaluation methods for different groupings of jobs in the organization. When pay is set, the scatter diagrams are usually different and the pay policy line and the y-intercept as well. For this reason an organization may have more than one pay structure.

This can occur, for example, when the organization develops one pay structure for upper management and another for lower level employees. In the situation where an organization has more than one pay structure, it is important that questions of fairness are addressed.

2) What are some of the philosophical issues underlying overlap between pay grades?

In general, the amount of overlap should reflect how similar the jobs are to each other; the more similar the jobs, the more overlap there should be, the less similar the jobs, the less overlap there should be.

The philosophical idea behind this is that a high-performing employee who has been with the company for a long time but performs the lower level job

has a greater contribution to the organization than a new employee performing the higher level job. Of course the more similar the jobs are to each other the more this statement is true.

One potential problem, however, in having large pay grade overlap is that the motivational power of being promoted to a higher level job may be decreased when the accompanying pay increase is quite small. When there is large pay grade overlap this could quite easily occur.