
Strategic Reward Systems

Strategic Reward Systems II: Design and Strategic Choice Issues

Basic goals of a compensation system

- Attract employees
- Retain employees
- Motivate employees
- Compliance with pay laws
- Administrative simplicity
- Cost effectiveness

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Critical Thinking Questions

1. Which goals would be most critical for a technology company such as Visionary Design Systems?
2. Which goals would be most critical for a non-profit company?

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Design Issues

- Job-based vs. Individual-based pay design
- Fixed vs. Variable pay
- Internal vs. External pay equity emphasis
- Performance vs. Membership as basis for rewards

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Design Issues

- Egalitarian vs. Elitist allocation of perks & rewards
- Market position of base salaries:
 - Meet the market
 - Lead the market
 - Lag the market
- Monetary vs. non-monetary reward emphasis

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Administration Framework

- Open Pay vs. Pay Secrecy
- Centralized vs. Decentralized pay administration

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Critical Thinking Questions:

1. Why do most private firms choose to have a pay secrecy policy? Do they work? Does pay secrecy fit with a high commitment HR system where employee participation is a strong element of corporate culture?
2. Should a manager receive higher pay than the subordinates that she/he supervises?

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Critical Thinking Questions:

3. What are the strategic advantages of paying below the market for pay? Can a firm sustain this pay choice?
4. Why would a firm decide to pay above the market? Is this choice open to all firms in an industry or sector?

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Choosing the Basis for Pay

1. **Job-based pay:** assumes jobs can be standardized according to duties/responsibilities
 - The job is priced in the open market as a commodity
 - Performance differences between competent employees are assumed to be small
 - A “star” would reflect value inherent in the job role

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Choosing the Basis for Pay

2. Skill or Competence-based Pay

- Assumes the individual is the source of value, rather than the job
- Specific skill blocks and competences that an employee brings or develops is recognized with higher pay
- A “star” would reflect a highly competent individual such as a top engineer or computer programmer

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Choosing the Basis for Pay

3. Seniority

- Basis of pay is employee's experience on the job or firm
- Assumes more experienced employees are more competent
- Seniority is valued in certain societies (Asian), occupational groups (unionized trades), and corporate cultures

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Choosing the Basis for Pay

3. **Seniority** (continued)

- Seniority is easier to measure (objectivity) and administer fairly, than most alternatives as a rule for pay allocation.
- Seniority influences many benefits: retirement plan vesting, allocations for vacation, sick leave, offices, parking spaces, and other privileges.

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Choosing the Basis for Pay

4. Time or output as the basis of pay

Time based pay: wage or salary

- Time treats pay as a fixed cost

Output/Performance based pay: commission, piece rate, bonus, stock options, stock ownership, profit sharing

- Output/performance treats pay as a variable cost.

Most employees receive a mix of time and output based pay.

The key is to manage this pay mix so that it contributes to firm performance.

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Critical Thinking Questions:

1. What are the advantages of putting all employees, both hourly wage employees, and professional exempt (from overtime) employees into the same pay system as an “all salary workforce” policy? What administrative challenges does this policy present?