

# CHAPTER 5

## Selection

### THE INTERVIEW

Many of us have or will sit in a waiting room with our best clothes on awaiting a job (or school) interview. You can feel your palms sweat and thoughts race as you wait for your name to be called. You look around at the office environment and imagine yourself walking through those doors everyday. People walk by and smile, and overall, you have a really good first impression of the organization. You hope they like you. You tell yourself to remember to smile, while recalling all your experience that makes you the perfect person for this job. A moment of self-doubt may occur, as you wonder about the abilities of the other people being interviewed and hope you have more experience and make a better impression than they do. You hear your name, stand up, and give a firm handshake to the HR manager. The interview has begun.

As she walks you back to a conference room, you think you see encouraging smiles as you pass by people. She asks you to take a chair and then tells you what the interview process will be like. She then asks the first question, "Tell me about yourself." As you start discussing your experience, you feel yourself relax, just a little bit. After the interview finishes, she asks you to take a quick cognitive test, which you feel good about. She tells you she will be doing reference checks and will let you know by early next week.

To get to this point, the hiring manager may have reviewed hundreds of résumés and developed criteria she would use for selection of the right person for the job. She has probably planned a time line for hiring, developed hiring criteria, determined a compensation package for the job, and enlisted help of other managers to interview candidates. She may have even performed a number of phone interviews before bringing only a few of the best candidates in for interviews. It is likely she has certain qualities in mind that she is hoping you or another candidate will possess. Much work goes into the process of hiring someone, with selection being an important step in that process. A hiring process done correctly is time-consuming and precise. The interviewer should already have questions determined and should be ready to sell the organization to the candidate as well. This chapter will discuss the main components to the selection process.



## Employee Selection Introduction

The author introduces the chapter on employee selection.



View the video online at: <http://app.wistia.com/embed/medias/6137614e00>

## 1. THE SELECTION PROCESS

### LEARNING OBJECTIVE

1. Be able to name and discuss the steps in the selection process.

#### selection process

The steps involved in choosing people who have the right qualifications to fill a current or future job opening.

Once you have developed your recruitment plan, recruited people, and now have plenty of people to choose from, you can begin the selection process. The **selection process** refers to the steps involved in choosing people who have the right qualifications to fill a current or future job opening. Usually, managers and supervisors will be ultimately responsible for the hiring of individuals, but the role of human resource management (HRM) is to define and guide managers in this process. Similar to the recruitment process discussed in Chapter 4, the selection process is expensive. The time for all involved in the hiring process to review résumés, weight the applications, and interview the best candidates takes away time (and costs money) that those individuals could spend on other activities. In addition, there are the costs of testing candidates and bringing them in from out of town for interviews. In fact, the US Department of Labor and Statistics estimates the combined direct and indirect cost of hiring someone new can reach upwards of \$40,000.<sup>[1]</sup> Because of the high cost, it is important to hire the right person from the beginning and ensure a fair selection process. For example, the Austin, Texas, fire department calculated it would cost \$150,000 to reinterview candidates, after the interview questions were leaked to the public, giving some candidates possibly unfair advantages in the interview process.<sup>[2]</sup>

The selection process consists of five distinct aspects:

1. **Criteria development.** All individuals involved in the hiring process should be properly trained on the steps for interviewing, including developing criteria, reviewing résumés, developing interview questions, and weighting the candidates.
 

The first aspect to selection is planning the interview process, which includes criteria development. Criteria development means determining which sources of information will be used and how those sources will be scored during the interview. The criteria should be related directly to the job analysis and the job specifications. This is discussed in Chapter 4. In fact, some aspects of the job analysis and job specifications may be the actual criteria. In addition to this, include things like personality or cultural fit, which would also be part of criteria development. This process usually involves discussing which skills, abilities, and personal characteristics are required to be successful at any given job. By developing the criteria before reviewing any résumés, the HR manager or manager can be sure he or she is being fair in selecting people to interview. Some organizations may need to develop an application or a biographical information sheet. Most of these are completed online and should include information about the candidate, education, and previous job experience.
2. **Application and résumé review.** Once the criteria have been developed (step one), applications can be reviewed. People have different methods of going through this process, but there are also computer programs that can search for keywords in résumés and narrow down the number of résumés that must be looked at and reviewed.
3. **Interviewing.** After the HR manager and/or manager have determined which applications meet the minimum criteria, he or she must select those people to be interviewed. Most people do not have time to review twenty or thirty candidates, so the field is sometimes narrowed even further with a phone interview. This is discussed in Section 3.
4. **Test administration.** Any number of tests may be administered before a hiring decision is made. These include drug tests, physical tests, personality tests, and cognitive tests. Some organizations also perform reference checks, credit report checks, and background checks. Types of tests are discussed in Section 4. Once the field of candidates has been narrowed down, tests can be administered.
5. **Making the offer.** The last step in the selection process is to offer a position to the chosen candidate. Development of an offer via e-mail or letter is sometimes a more formal part of this process. Compensation and benefits will be defined in an offer. We discuss this in Chapter 6.

**FIGURE 5.1**

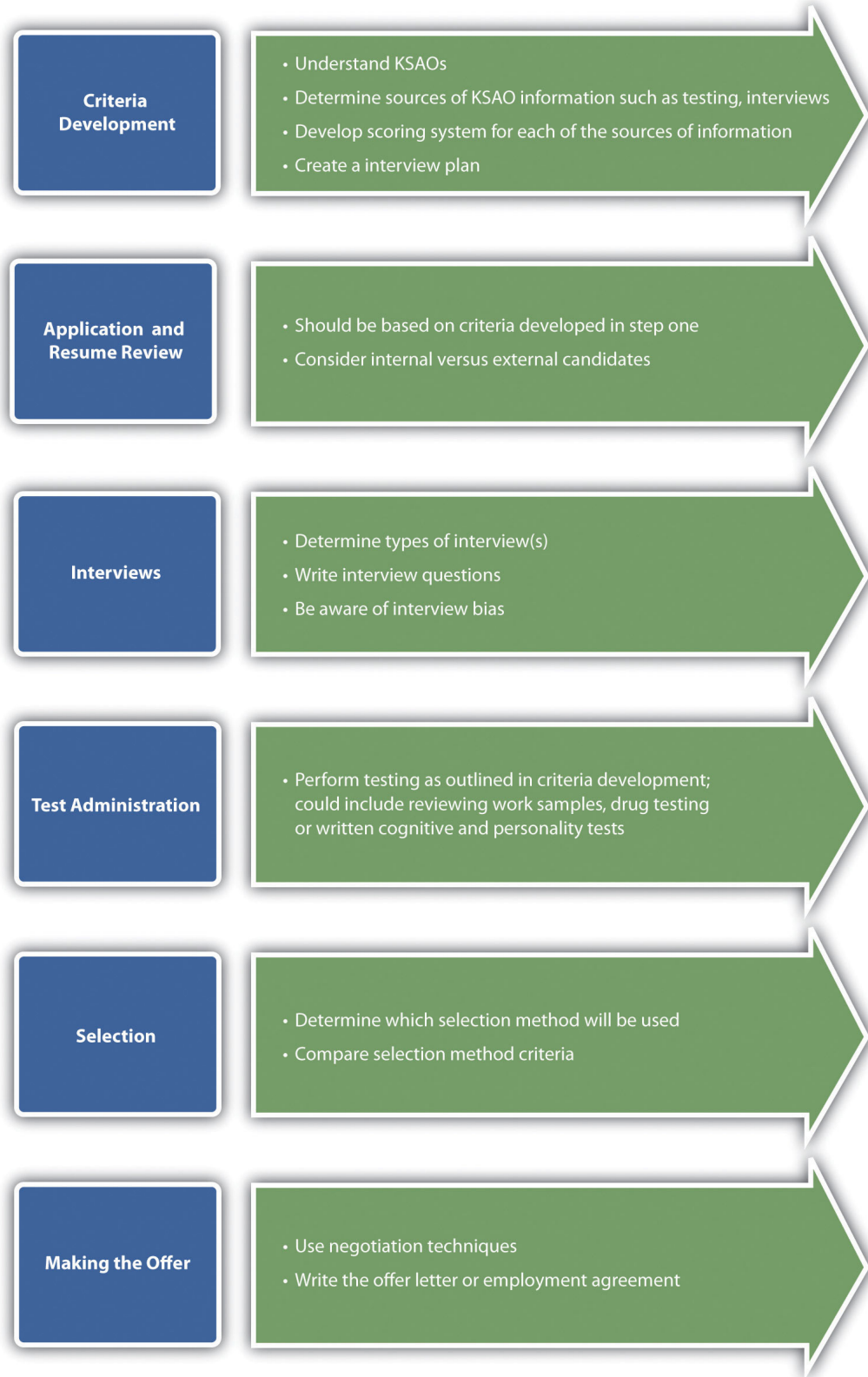
Interviews can be nerve wracking. In this chapter, we will discuss what goes into making the best hiring decision.



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**FIGURE 5.2 The Selection Process at a Glance**

We will discuss each of these aspects in detail in this chapter.



### Fortune 500 Focus

In a 2010 interview,<sup>[3]</sup> Robert Selander, then CEO of MasterCard, cited presence as one of the most important aspects to acing an interview. He describes how, in any large organization, an employee will be expected to engage with a variety of stakeholders, from a member of Congress to a contractor replacing the carpet in the building. He says that a good employee—at any level of the organization—should be able to communicate well but also be able to communicate to a variety of stakeholders. We discuss communication in Chapter 9. Selander also says he will always ask the candidate about his or her weaknesses, but more importantly, how the candidate plans to address those weaknesses to make sure they do not become a barrier to success. He always asks the question “What can you do for us?” When asked if he could pose only one interview question, what would it be, his answer was, “Share with me two situations, work related that you are proud of, where something was achieved based on your own personal initiative and the other where the achievement was a result of the team getting something done that you could not have done alone.” In other words, Selander is looking for not only personal ability but the ability to work within a team to accomplish tasks. Selander offers advice to new college grads: try to find an organization where you can be involved and see all aspects of the business and be provided training to help you with certain skills that will be needed.

### Human Resource Recall

When was the last time you interviewed for a job? Did the process seem to flow smoothly? Why or why not?

#### KEY TAKEAWAYS

- The *selection process* refers to the steps involved in choosing someone who has the right qualifications to fill a current or future job opening.
- There are five main steps in the selection process. First, criteria are developed to determine how the person will be chosen. Second is a review of the applications and résumés, often done via a computer program that can find keywords. Next is interviewing the employee. The last steps involve testing, such as a personality test or drug test, and then finally, making the offer to the right candidate.

#### EXERCISE

1. What components are included in the selection process? Which one do you think is the most important?

## 2. CRITERIA DEVELOPMENT AND RÉSUMÉ REVIEW

#### LEARNING OBJECTIVES

1. Be able to explain why criteria development is an important part of the selection process.
2. Give examples of types of criteria that can be developed.
3. Describe the advantages and disadvantages of internal and external candidates.

Before we begin to review résumés and applications, we must have a clear idea of the person we want to hire for the position. Obviously, the job specifications will help us know the minimum qualifications, such as education level and years of experience. However, additional criteria might include the attitude of the potential hire, the ability to take initiative, and other important personal characteristics and professional abilities that may not always be demonstrated in an application or résumé. A specific score on a personality test, quality of work samples, and other tools to determine qualifications should be included as part of the criteria. In other words, knowing exactly what you want before you even begin the process of looking through résumés will make this process much easier. In human resources, this is called **KSAOs**, or knowledge, skills, abilities, and other personal characteristics that make a person successful on the job. Some organizations, such as the United States Department of Veterans Affairs,

#### KSAOs

Knowledge, skills, abilities, and other personal characteristics that make a person successful on the job.

require applicants to address each one of the KSAOs listed in the job position within their cover letter.<sup>[4]</sup>

## 2.1 Criteria Development Considerations

Many HR professionals and managers develop the criteria for hiring, as well as the interview questions, before reviewing any résumés. This allows for a streamlined process with specific guidelines already set before reviewing a résumé. For example, criteria for a project management job might include the following:

1. Two years of experience managing a \$2 million or more project budget
2. A bachelor's degree in business or closely related field
3. Ability to work on multiple projects at once
4. Problem-solving ability
5. Conflict-management ability
6. Ability to manage a team of five to six diverse workers
7. Score of at least a 70 on cognitive ability test
8. Score of excellent from most recent employer

By setting criteria ahead of time, the hiring team has a clear picture of exactly what qualifications they are looking for. As a result, it is easier to determine who should move forward in the selection process. For example, if someone does not have a bachelor's degree, given this is a criterion, their application materials can be filed away, perhaps for another job opening. Likewise, the HR manager can include those résumés with two or more years of experience and bachelor's degree in the interview pile and then develop interview questions that show the candidates' problem-solving, multitasking, and conflict-management abilities.

Résumé parsing or résumé scanning software is readily available and can make the initial screening easier. For example, Sovren software allows the HR manager to include keywords such as *bachelor's degree* or *management*. This software scans all received résumés and selects the ones that have the keywords. While it still may be necessary to review résumés, this type of software can save time having to look through résumés that obviously do not meet the minimum qualifications.

## 2.2 Validity and Reliability

The **validity** refers to how useful the tool is to measure a person's attributes for a specific job opening. A tool may include any and all of the following:

1. Résumé-scanning software
2. Reference checks
3. Cognitive ability tests
4. Work samples
5. Credit reports
6. Biographical information blanks
7. Weighted application forms
8. Personality tests
9. Interview questions

### validity

How useful a tool is to measure a person's attributes for a specific job opening.

**Biographical information blanks (BIBs)** are a useful part of the application process. A BIB is a series of questions about a person's history that may have shaped his or her behavior. The BIB can be scored in the same way as an interview or a résumé, assuming the organization knows which types of answers are predictable for success in a given job. Similarly, a **weighted application form** involves selecting an employee characteristic to be measured and then identifying which questions on the application predict the desired behavior. Then scores are assigned to each predictor. Of course, the development of the scoring should be determined before any résumés and application forms have been reviewed. In other words, any tool you use to determine someone's qualifications for a job should have validity to determine they are the right fit for the job.

**Reliability** refers to the degree in which other selection techniques yield similar data over time. For example, if you ask the same interview question of every applicant for the project management position, and the "right" answer always yields similar, positive results, such as the hiring of a successful employee every time, the question would be considered reliable. An example of an unreliable test might occur with reference checks. Most candidates would not include a reference on their résumé who might give them a poor review, making this a less reliable method for determining skills and abilities of applicants.

## 2.3 Fit Issues

Fit includes not only the right technical expertise, education, and experience but also fit in company culture and team culture. For example, at Facebook headquarters in Palo Alto, California, engineers are selected based on their willingness to take risks, as risk taking is nurtured at Facebook.<sup>[5]</sup> In addition to this component of their company culture, the company looks for the "hacker" personality, because a hacker is someone who finds ways around the constraints placed upon a system. At Zappos, profiled in Chapter 4, the company culture is one focused on customer service and the willingness of people to provide the best customer service in all aspects of the business. At Amazon, the huge online retailer, a core value in their company culture is a focus on developing leaders to grow with the organization. If a potential candidate is not interested in long-term career growth, he or she might not be deemed an appropriate strategic fit with the organization. In today's organizations, most people are required to work within teams. As a result, fit within a team is as important as company culture fit. Microsoft, for example, does an immense amount of teamwork. The company is structured so that there are marketers, accountants, developers, and many others working on one product at a time. As a result, Microsoft looks for not only company culture fit but also fit with other team members.

## 2.4 Reviewing Résumés

Once we have developed our criteria for a specific job, we can begin the review process. Everyone prefers to perform this differently. For example, all the hiring decision makers may review all résumés, list the people they would like to meet in person, and then compare the lists. Another method might be to rate each candidate and interview only those above a certain score. This is discussed in Section 4. Obviously, much of the process will depend on the organization's size and the type of job. None of this process can be done fairly without first setting criteria for the job.

When looking at résumés to determine whom to interview, a manager should be concerned with the concepts of disparate impact and disparate treatment. This is discussed in Chapter 4. Disparate impact is unintended discrimination against a protected group as a whole through the use of a particular requirement. Disparate impact may be present in the interviewing process, as well as other employment-related processes such as pay raises and promotions. For example, a requirement of being able to lift 110 pounds might be considered as having disparate impact on women, unless the job requires this ability. Every criteria developed should be closely considered to see if it might have disparate impact on a protected group of individuals. For example, the requirement of a certain credit score might have a negative impact on immigrants, who may not have a well-developed credit rating. However, if being able to manage money is an important requirement of the job, this requirement might not be discriminatory.

Disparate treatment in hiring might include not interviewing a candidate because of one's perception about the candidate's age, race, or gender.

### biographical information blanks (BIBs)

A series of questions about a person's history that may have shaped his or her behavior.

### weighted application form

Involves selecting an employee characteristic to be measured and then identifying which questions on the application predict the desired behavior. Then scores are assigned to each predictor.

### reliability

The degree in which selection techniques yield similar data over time.



**internal candidate**

Someone who applies for a position within the company who is already working for the company.

**external candidate**

Someone who works outside the organization.

The last consideration is the hiring of internal versus external candidates. An **internal candidate** is someone who already works within the organization, while an **external candidate** is someone who works outside the organization. A bidding process may occur to notify internal candidates of open positions. This is discussed in Chapter 4. Generally speaking, it is best to go through a formal interview process with all candidates, even if they work within the organization. This way, an HR professional can be assured that disparate treatment does not occur because of favoritism. For example, a senior executive of your organization just left, and you believe the manager in that department is qualified to take over the position. Suppose, though, that the manager has been lobbying you for the job for some time and has even taken you out to lunch to talk about the job. While this person has maintained high visibility and lobbied for the promotion, there may be equally qualified internal candidates who did not use the same lobbying techniques. Automatically offering the position to this internal candidate might undermine others who are equally qualified. So while hiring internally can be a motivator, making assumptions about a particular person may not be a motivator to others. This is why it is best, even if you hire internally, to post a formal job announcement listing the job description and job qualifications, so everyone in the organization can have an equal opportunity to apply for the job.

Once you have completed the criteria for the particular job and narrowed down the field, you can begin the interview process. We discuss this in Section 3.

**TABLE 5.1 Possible Advantages and Disadvantages of Hiring an Internal versus an External Candidate**

	Advantages	Disadvantages
Internal Candidates	Rewards contributions of current staff	Can produce “inbreeding,” which may reduce diversity and difference perspectives
	Can be cost effective, as opposed to using a traditional recruitment strategy	May cause political infighting between people to obtain the promotions
	Can improve morale	Can create bad feelings if an internal candidate applies for a job and doesn’t get it
Knowing the past performance of the candidate can assist in knowing if they meet the criteria		
External Candidates	Brings new talent into the company	Implementation of recruitment strategy can be expensive
	Can help an organization obtain diversity goals	Can cause morale problems for internal candidates
	New ideas and insight brought into the company	Can take longer for training and orientation



### How Would You Handle This?

#### Poor Interviewer

As the assistant to the HR manager, one of your jobs is to help managers get ready to interview candidates. When you offer help to Johnathan, he says he has interviewed hundreds of people and doesn’t need your help in planning the interview process. When you sit in the interview with him, he asks inappropriate questions that you don’t feel really assess the abilities of a candidate. How would you handle this?

#### How Would You Handle This?

The author discusses the How Would You Handle This situation in this chapter at: <https://api.wistia.com/v1/medias/1360625/embed>.



## KEY TAKEAWAYS

- The first step in selection is to begin reviewing résumés. Even before you do this, though, it is important to develop criteria that each candidate will be measured against. This can come from the job description as well as the job qualifications.
- Other tools, such as cognitive ability tests, credit checks, and personality tests, can be used to determine qualifications. When developing your criteria for interviewing, determine the level the applicant needs to meet to meet the minimum criteria, for example, a minimum score on a personality test.
- We should be concerned with validity and reliability of measurement tools. *Validity* refers to how valid the test is, that is, how well a test measures a candidate's abilities to do a job. *Reliability* refers to which selection techniques yield similar data or results over time. It is important to choose the right measurement tool used to determine whether the candidate meets the criteria.
- Setting criteria before the interview process starts ensures that *disparate impact* or *disparate treatment* does not occur in the interview process.
- When hiring, there is the option of internal and external candidates. Each has its own set of advantages and disadvantages. Internal candidates may be able to "hit the ground running," but external candidates may come in with new perspectives. Even if an internal candidate seems to be the best hire, it is best to still perform the process of posting the job and interviewing, since other less vocal employees might be qualified internal candidates as well. In other words, don't assume one person is the obvious choice for the promotion.

## EXERCISES

1. Develop criteria for the position of a retail salesperson working in teams.
2. Describe the advantages and disadvantages of hiring an internal and external candidate. Give an example of when you don't think an external candidate should be considered for a position.
3. How can development of criteria or minimum standards help in a case of disparate treatment accusations?

## 3. INTERVIEWING

## LEARNING OBJECTIVES

1. Explain the various types of interviews and interview questions.
2. Discuss interview methods and potential mistakes in interviewing candidates.
3. Explain the interview process.

Interviewing people costs money. As a result, after candidates are selected, good use of time is critical to making sure the interview process allows for selection of the right candidate. In an **unstructured interview**, questions are changed to match the specific applicant; for example, questions about the candidate's background in relation to their résumé might be used. In a **structured interview**, there is a set of standardized questions based on the job analysis, not on individual candidates' résumés. While a structured interview might seem the best option to find out about a particular candidate, the bigger concern is that the interview revolves around the specific job for which the candidate is interviewing. In a structured interview, the expected or desired answers are determined ahead of time, which allows the interviewer to rate responses as the candidate provides answers. This allows for a fair interview process, according to the US Office of Personnel Management.<sup>[6]</sup> For purposes of this section, we will assume that all interviews you perform will be structured, unless otherwise noted.

**unstructured interview**

A type of interview in which questions are changed to match the specific applicant.

**structured interview**

A type of interview with a set of standardized questions based on the job analysis, not on the individual candidate's résumé.

### 3.1 Types of Interviews

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Interview processes can be time-consuming, so it makes sense to choose the right type of interview(s) for the individual job. Some jobs, for example, may necessitate only one interview, while another may necessitate a telephone interview and at least one or two traditional interviews. Keep in mind, though, that there will likely be other methods with which to evaluate a candidate's potential, such as testing. Testing is discussed in Section 4. Here are different types of interviews:

1. **Traditional interview.** This type of interview normally takes place in the office. It consists of the interviewer and the candidate, and a series of questions are asked and answered.
2. **Telephone interview.** A telephone interview is often used to narrow the list of people receiving a traditional interview. It can be used to determine salary requirements or other data that might automatically rule out giving someone a traditional interview. For example, if you receive two hundred résumés and narrow these down to twenty-five, it is still unrealistic to interview twenty-five people in person. At this point, you may decide to conduct phone interviews of those twenty-five, which could narrow the in-person interviews to a more manageable ten or so people.
3. **Panel interview.** A panel interview occurs when several people are interviewing one candidate at the same time. While this type of interview can be nerve racking for the candidate, it can also be a more effective use of time. Consider some companies who require three to four people to interview candidates for a job. It would be unrealistic to ask the candidate to come in for three or four interviews, so it makes sense for them to be interviewed by everyone at once.
4. **Information interview.** Informational interviews are usually used when there is no specific job opening, but the candidate is exploring possibilities in a given career field. The advantage to conducting these types of interviews is the ability to find great people ahead of a job opening.
5. **Meal interviews.** Many organizations offer to take the candidate to lunch or dinner for the interview. This can allow for a more casual meeting where, as the interviewer, you might be able to gather more information about the person, such as their manners and treatment of waitstaff. This type of interview might be considered an unstructured interview, since it would tend to be more of a conversation as opposed to a session consisting of specific questions and answers.
6. **Group interview.** In a group interview, two or more candidates interview at the same time. This type of interview can be an excellent source of information if you need to know how they may relate to other people in their job.
7. **Video interviews.** Video interviews are the same as traditional interviews, except that video technology is used. This can be cost saving if one or more of your candidates are from out of town. Skype, for example, allows free video calls. An interview may not feel the same as a traditional interview, but the same information can be gathered about the candidate.
8. **Nondirective interview (sometimes called an unstructured interview).** In a nondirective interview, the candidate essentially leads the discussion. Some very general questions that are planned ahead of time may be asked, but the candidate spends more time talking than the interviewer. The questions may be more open ended; for example, instead of asking, "Do you like working with customers?" you may ask, "What did you like best about your last job?" The advantage of this type of interview is that it can give candidates a good chance to show their abilities; however, the downside is that it may be hard to compare potential candidates, since questions are not set in advance. It relies on more of a "gut feeling" approach.

It is likely you may use one or more of these types of interviews. For example, you may conduct phone interviews, then do a meal interview, and follow up with a traditional interview, depending on the type of job.

## 3.2 Interview Questions

Most interviews consist of many types of questions, but they usually lean toward situational interviews or behavior description interviews. A **situational interview** is one in which the candidate is given a sample situation and is asked how he or she might deal with the situation. In a **behavior description interview**, the candidate is asked questions about what he or she actually did in a variety of given situations. The assumption in this type of interview is that someone's past experience or actions are an indicator of future behavior. These types of questions, as opposed to the old "tell me about yourself" questions, tend to assist the interviewer in knowing how a person would handle or has handled situations. These interview styles also use a structured method and provide a better basis for decision making. Examples of situational interview questions might include the following:

1. If you saw someone stealing from the company, what would you do?
2. One of your employees is performing poorly, but you know he has some personal home issues he is dealing with. How would you handle complaints from his colleagues about lack of performance?
3. A coworker has told you she called in sick three days last week because she actually decided to take a vacation. What would you do?
4. You are rolling out a new sales plan on Tuesday, which is really important to ensure success in your organization. When you present it, the team is lukewarm on the plan. What would you do?
5. You disagree with your supervisor on her handling of a situation. What would you do?

Examples of behavior description interview questions might include the following:

1. Tell me about a time you had to make a hard decision. How did you handle this process?
2. Give an example of how you handled an angry customer.
3. Do you show leadership in your current or past job? What would be an example of a situation in which you did this?
4. What accomplishments have given you the most pride and why?
5. What plans have you made to achieve your career goals?

### situational interview

An interview style in which the candidate is given a sample situation and asked how he or she might deal with the situation.

### behavior description interview

A type of interview in which the candidate is asked questions about what he or she actually did in a variety of given situations.



### Top 36 Interview Questions and Answers

Examples of how to answer those difficult interview questions.



View the video online at: <http://www.youtube.com/v/3L3V5hg4QDE>

As you already know, there are many types of interview questions that would be considered illegal. Here are some examples:

1. **National origin.** You cannot ask seemingly innocent questions such as "That's a beautiful name, where is your family from?" This could indicate national origin, which could result in bias. You also cannot ask questions about citizenship, except by asking if a candidate is legally allowed to work in the United States. Questions about the first language of the candidate shouldn't be asked, either. However, asking "Do you have any language abilities that would be helpful in this job?" or "Are you authorized to work in the United States?" would be acceptable.
2. **Age.** You cannot ask someone how old they are, and it is best to avoid questions that might indicate age, such as "When did you graduate from high school?" However, asking "Are you over 18?" is acceptable.

3. **Marital status.** You can't ask direct questions about marital status or ages of children. An alternative may be to ask, "Do you have any restrictions on your ability to travel, since this job requires 50 percent travel?"
4. **Religion.** It's illegal to ask candidates about their religious affiliation or to ask questions that may indicate a religion-affiliated school or university.
5. **Disabilities.** You may not directly ask if the person has disabilities or recent illnesses. You can ask if the candidate is able to perform the functions of the job with or without reasonable accommodations.
6. **Criminal record.** While it is fine to perform a criminal record check, asking a candidate if they have ever been arrested is not appropriate; however, questions about convictions and guilty pleadings are acceptable.
7. **Personal questions.** Avoid asking personal questions, such as questions about social organizations or clubs, unless they relate to the job.

Besides these questions, any specific questions about weight, height, gender, and arrest record (as opposed to allowable questions about criminal convictions) should be avoided.

HR professionals and managers should be aware of their own body language in an interview. Some habits, such as nodding, can make the candidate think they are on the right track when answering a question. Also, be aware of a **halo effect or reverse halo effect**. This occurs when an interviewer becomes biased because of one positive or negative trait a candidate possesses. **Interview bias** can occur in almost any interview situation. Interview bias is when an interviewer makes assumptions about the candidate that may not be accurate.<sup>[7]</sup> These assumptions can be detrimental to an interview process. **Contrast bias** is a type of bias that occurs when comparing one candidate to others. It can result in one person looking particularly strong in an area, when in fact they look strong compared to the other candidates. A **gut feeling bias** is when an interviewer relies on an intuitive feeling about a candidate. **Generalization bias** can occur when an interviewer assumes that how someone behaves in an interview is how they always behave. For example, if a candidate is very nervous and stutters while talking, an assumption may be made that he or she always stutters. Another important bias called **cultural noise bias** occurs when a candidate thinks he or she knows what the interviewer wants to hear and answers the questions based on that assumption. **Nonverbal behavior bias** occurs when an interviewer likes an answer and smiles and nods, sending the wrong signal to the candidate. A **similar to me bias** (which could be considered discriminatory) results when an interviewer has a preference for a candidate because he or she views that person as having similar attributes as themselves. Finally, **recency bias** occurs when the interviewer remembers candidates interviewed most recently more so than the other candidates.

### Human Resource Recall

What are the dangers of a reverse halo effect?

### FIGURE 5.3

A halo effect occurs when a desirable trait makes us believe all traits possessed by the candidate are desirable. This can be a major danger in interviewing candidates.



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## 3.3 Interview Process

Once the criteria have been selected and interview questions developed, it is time to start interviewing people. Your interviewing plan can determine the direction and process that should be followed:

1. Recruit new candidates.
2. Establish criteria for which candidates will be rated.
3. Develop interview questions based on the analysis.
4. Set a time line for interviewing and decision making.
5. Connect schedules with others involved in the interview process.

### halo effect or reverse halo effect

This occurs when an interviewer becomes biased because of one positive or negative trait a candidate possesses.

### interview bias

When an interviewer makes assumptions about the candidate that may not be accurate.

### contrast bias

A type of bias that occurs when comparing one candidate to others.

### gut feeling bias

When an interviewer relies on an intuitive feeling about a candidate.

### generalization bias

A type of interview bias that occurs when an interviewer assumes that how someone behaves in an interview is how they always behave.

### cultural noise bias

A type of interview bias that occurs when a candidate thinks he or she knows what the interviewer wants to hear and answers the questions based on that assumption.

### nonverbal behavior bias

When the nonverbal behavior of an interviewer results in bias.

### similar to me bias

An interviewer having a preference for a candidate because he or she views that person as sharing similar attributes.

### recency bias

Interview bias that occurs when the interviewer remembers candidates interviewed most recently more so than the other candidates.

6. Set up the interviews with candidates and set up any testing procedures.
7. Interview the candidates and perform any necessary testing.
8. Once all results are back, meet with the hiring team to discuss each candidate and make a decision based on the established criteria.
9. Put together an offer for the candidate.

As you can see, a large part of the interviewing process is planning. For example, consider the hiring manager who doesn't know exactly the type of person and skills she is looking to hire but sets up interviews anyway. It is difficult, if not impossible, to determine who should be hired if you don't know what you are looking for in the first place. In addition, utilizing time lines for interviewing can help keep everyone involved on track and ensure the chosen candidate starts work in a timely manner. Here are some tips to consider when working with the interview process:

1. Make sure everyone is trained on the interviewing process. Allowing someone who has poor interviewing skills to conduct the interview will likely not result in the best candidate. In a worst-case scenario, someone could ask an illegal question, and once hired, the candidate can sue the organization. UCLA researchers<sup>[8]</sup> calculated that plaintiffs win about half of hiring discrimination cases that go to trial, sometimes because of interviewers asking illegal questions. For example, "I see you speak Spanish, where did you study it?" is a seemingly harmless question that could be indirectly asking a candidate his or her ethnic background. To avoid such issues, it's important to train managers in the proper interviewing process.
2. Listen to the candidate and try to develop a rapport with them. Understand how nervous they must be and try to put them at ease.
3. Be realistic about the job. Do not try to paint a "rosy" picture of all aspects of the job. Being honest up front helps a candidate know exactly what they will be in for when they begin their job.
4. Be aware of your own stereotypes and do not let them affect how you view a potential candidate.
5. Watch your own body language during the interview and that of the candidate. Body language is a powerful tool in seeing if someone is the right fit for a job. For example, Scott Simmons, vice president at Crist|Kolder, interviewed someone for a CFO position. The candidate had a great résumé, but during the interview, he offered a dead-fish handshake, slouched, and fidgeted in his chair. The candidate didn't make eye contact and mumbled responses, and, of course, he didn't get the job,<sup>[9]</sup> because his body language did not portray the expectations for the job position.
6. Stick to your criteria for hiring. Do not ask questions that have not been predetermined in your criteria.
7. Learn to manage disagreement and determine a fair process if not everyone on the interviewing team agrees on who should be hired. Handling these types of disagreements is discussed further in Chapter 9.

Once you have successfully managed the interview process, it is time to make the decision. Section 4 discusses some of the tools we can use to determine the best candidate for the job.

### Human Resource Recall

Can you think of a time when the interviewer was not properly trained? What were the results?



### Silly Job Interview—Monty Python

An exaggerated and funny example of an untrained interviewer.



View the video online at: <http://www.youtube.com/v/zP0sqRMzkwo>

## KEY TAKEAWAYS

- Traditional, telephone, panel, informational, meal, group, and video are types of interviews. A combination of several of these may be used to determine the best candidate for the job. A *structured interview* format means the questions are determined ahead of time, and *unstructured* means the questions are based on the individual applicant. The advantage of a structured interview is that all candidates are rated on the same criteria. Before interviewing occurs, criteria and questions for a structured interview should be developed.
- Interview questions can revolve around *situational questions* or *behavioral questions*. Situational questions focus on asking someone what they would do in a given situation, while behavioral questions ask candidates what they have done in certain situations.
  - Interview questions about national origin, marital status, age, religion, and disabilities are illegal. To avoid any legal issues, it is important for interviewers to be trained on which questions cannot be asked. The *halo effect*, which assumes that one desirable trait means all traits are desirable, should also be avoided.
  - The process involved in interviewing a person includes the following steps: recruit new candidates; establish criteria for which candidates will be rated; develop interview questions based on the analysis; set a time line for interviewing and decision making; connect schedules with others involved in the interview process; set up interviews with candidates and set up any testing procedures; interview the candidates and perform any necessary testing; and once all results are back, meet with the hiring team to discuss each candidate and make a decision based on the established criteria; then finally, put together an offer for the candidate.
  - Developing a rapport, being honest, and managing the interview process are tips to having a successful interview.

## EXERCISES

1. With a partner, develop a list of five examples (not already given in the chapter) of situational and behavioral interview questions.
2. Why is it important to determine criteria and interview questions before bringing someone in for an interview?
3. Visit Monster.com and find two examples of job postings that ask those with criminal records not to apply. Do you think, given the type of job, this is a reasonable criteria?



## 4. TESTING AND SELECTING

### LEARNING OBJECTIVES

1. Explain the types of tests that can be administered as part of the selection process.
2. Be able to discuss the types of selection models.

Besides the interview, we can also look at several other aspects that may predict success on the job. If any test is to be criteria for measuring a candidate, this should be communicated to each person interviewing, and criteria should be developed on specific test scores and expectations before interviewing and testing begins.

### 4.1 Testing

A variety of tests may be given upon successful completion of an interview. These employment tests can gauge a person's KSAOs in relation to another candidate. The major categories of tests include the following:

1. Cognitive ability tests
2. Personality tests
3. Physical ability tests
4. Job knowledge tests
5. Work sample

A number of written tests can be administered. A **cognitive ability test** can measure reasoning skills, math skills, and verbal skills. An **aptitude test** measures a person's ability to learn new skills, while an **achievement test** measures someone's current knowledge. Depending on the type of job, one or both will be better suited.

A cognitive ability test measures intelligences, such as numerical ability and reasoning. The Scholastic Aptitude Test (SAT) is an example of a cognitive ability test. It is important to note that some cognitive ability tests can have disparate impact. For example, in *EEOC v. Ford Motor Co. and United Automobile Workers of America*, African Americans were rejected from an apprentice program after taking a cognitive test known as the Apprenticeship Training Selection System (ATSS).<sup>[10]</sup> The test showed significant disparate impact on African Americans, and it was then replaced by a different selection procedure, after costing Ford \$8.55 million. Some sample test categories might include the following:

1. Reasoning questions
2. Mathematical questions and calculations
3. Verbal and/or vocabulary skills

Aptitude tests can measure things such as mechanical aptitude and clerical aptitude (e.g., speed of typing or ability to use a particular computer program). Usually, an aptitude test asks specific questions related to the requirements of the job. To become a New York City police officer, for example, an aptitude test is required before an application will be considered. The written exam is given as a computerized test at a computerized testing center in the city. The test measures cognitive skills and observational skills (aptitude test) required for the job.<sup>[11]</sup>

Personality tests such as Meyers-Briggs and the "Big Five" personality factors may be measured and then compared with successful employee scores. For example, The University of Missouri Health Care system recently launched a patient satisfaction initiative as part of its strategic plan. The plan includes training for current employees and personality testing for nursing, managerial, and physician candidates.<sup>[12]</sup> The goal of the test is to assess talent and to see if the candidate has the potential to meet the expectations of patients. They hired a private company, Talent Plus, who conducts the test via phone interviews. However, many companies administer tests themselves, and some tests are free and can be administered online.

The Big Five personality test looks at extroversion, agreeableness, conscientiousness, neuroticism, and openness. Self-assessment statements might include the following:

1. I have an assertive personality.
2. I am generally trusting.

#### cognitive ability test

Measures a candidate's aptitudes or achievements.

#### aptitude test

Measures a person's ability to learn new skills.

#### achievement test

Measures someone's current knowledge.

3. I am not always confident in my abilities.
4. I have a hard time dealing with change.

Some institutions also require physical ability tests; for example, to earn a position in a fire department, you may have to be able to carry one hundred pounds up three flights of stairs. If you use tests in your hiring processes, the key to making them useful is to determine a minimum standard or expectation, specifically related to the requirements of the job. An HR manager should also consider the legality of such tests. In the *EEOC v. Dial Corp.* case,<sup>[13]</sup> women were disproportionately rejected for entry-level positions. Prior to the test, 46 percent of hires were women, but after implementation of the test, only 15 percent of the new hires were women. The Equal Employment Opportunity Commission (EEOC) established that the test was considerably more difficult than the job, resulting in disparate impact. Physical ability tests need to show direct correlation with the job duties.

A **job knowledge test** measures the candidate's level of understanding about a particular job. For example, a job knowledge test may require an engineer to write code in a given period of time or may ask candidates to solve a case study problem related to the job.

**Work sample tests** ask candidates to show examples of work they have already done. In the advertising business, this may include a portfolio of designs, or for a project manager, this can include past project plans or budgets. When applying for a pharmaceutical representative position, a "brag book" might be required.<sup>[14]</sup> A brag book is a list of recommendation letters, awards, and achievements that the candidate shares with the interviewer. Work sample tests can be a useful way to test for KSAOs. These work samples can often be a good indicator of someone's abilities in a specific area. As always, before looking at samples, the interviewer should have specific criteria or expectations developed so each candidate can be measured fairly.

Once the interview is completed and testing occurs, other methods of checking KSAOs, including checking references, driving records, and credit history, can be performed. Some companies even use Facebook as a way of gauging the candidate's professionalism.

Reference checking is essential to verify a candidate's background. It is an added assurance that the candidate's abilities are parallel with what you were told in the interview. While employment dates and job titles can be verified with previous employers, many employers will not verify more than what can be verified in the employment record because of privacy laws. However, if you do find someone who is willing to discuss more than just dates and job titles, a list of questions is appropriate. Some of these questions might include the following:

1. What was the title and responsibilities of the position the candidate had while at your company?
2. Do you think the candidate was qualified to assume those responsibilities?
3. Does this person show up on time and have good attendance?
4. Would you consider this person a team player?
5. What are the three strongest and weakest characteristics of this candidate?
6. Would you rehire this person?

If a candidate will be driving a company car or vehicle, such as a UPS truck, driving records may be checked. Criminal background checks may also be used if the position will include interaction with the public. If the position requires handling of money, a credit check may be required, although a written notice is required to be given to the candidate before the credit check is carried out. In addition, written permission must be provided to the credit agency, and the applicants must receive a copy of the report and a copy of their rights under the Consumer Credit Reporting Reform Act (CCRRA). All these types of tests can be used to determine if someone has been honest about their past employment.

Some companies require drug testing, which causes some debate. While some organizations say this is a safety issue (and pay lower insurance premiums), others say it is an invasion of privacy. As long as drug tests are administered for a defensible reason (safety), many organizations will continue to require them. Some organizations will also require physical examinations to ensure the candidate can perform the tasks required. A final form of testing is the honesty test. A number of "what would you do" questions are asked. The challenge with this type of test is that many people know the "right" answer but may not be honest in their responses.

#### job knowledge test

Measures the candidate's level of understanding about a particular job.

#### work sample tests

An employment test that asks candidates to show examples of work they have already done.

**TABLE 5.2** Reasons Why Employers Acted upon Data Found on Social Networking Sites

Provocative or inappropriate photos or info	53%
Drinking or drug use	44%
Badmouthing previous employer, colleague, or client	35%
Poor communication skills	29%
Discriminatory comments	26%
Lied about qualifications	24%
Leaked confidential information about previous job	20%

Source: Kit Eaton "If You're Applying for a Job, Censor Your Facebook Page," *Fast Company*, August 19, 2009, accessed January 27, 2011, <http://www.fastcompany.com/blog/kit-eaton/technomix/if-youre-applying-job-censor-your-facebook-page>.

Forty-five percent of organizations use social networking such as Facebook, Twitter, or LinkedIn to gather information about potential candidates.<sup>[15]</sup> See Table 5.2 for the types of data found on social networking sites that disqualified candidates, according to an article by *Fast Company*. This can be an effective method to see the kind of image the candidate portrays in his or her personal time.

## 4.2 Selection Methods



### Tell Me about Yourself

How to answer that famous "tell me about yourself" question in an interview.



View the video online at: <http://www.youtube.com/v/CumOvDWnUDY>

#### clinical selection approach

The decision makers review the data and, based on what they learn from the candidate and the information available to them, decide who should be hired for a job.

#### statistical method

A selection method in which a selection model is developed that assigns scores and weights on various factors, such as personality, answers to interview questions, and test scores.

A **clinical selection approach** is probably the most common selection method, and it involves all who will be making the decision to hire a candidate. The decision makers review the data and, based on what they learn from the candidate and the information available to them, decide who should be hired for a job. Because interviewers have a different perception about the strengths of a candidate, this method leaves room for error. One consideration is disparate treatment, in which one's biases may result in not hiring candidates based on their age, race, or gender. One way to handle this and limit the personal stereotypes and perceptions of the interviewers is to use a **statistical method** in hiring.

In the statistical method, a selection model is developed that assigns scores and gives more weight to specific factors, if necessary. For example, for some jobs, the ability to work in a team might be more important, while in others, knowledge of a specific computer program is more important. In this case, a weight can be assigned to each of the job criteria listed. For example, if the job is a project manager, ability to work with the client might be more important than how someone dresses for the interview. So, in the example shown in Figure 5.4, dress is weighted 1, while being able to give bad news to a client is weighted 5. In the example, the rating is multiplied by the weight to get the score for the particular job criteria. This method allows for a fairer process and can limit disparate treatment, although it may not limit disparate impact. A statistical method may work like this: you and the hiring team review the job analysis and job description and then determine the criteria for the job. You assign weights for each area and score ranges for each aspect of the criteria, rate candidates on each area as they interview, and then score tests or examine work samples. Once each hiring manager has scored each candidate, the hiring team can compare scores in each area and hopefully hire the best person in the best way. A sample candidate selection model is included in Figure 5.4.

With the statistical approach, there is more objectivity than with the clinical approach. Statistical approaches include the compensatory model, multiple cutoff model, and the multiple hurdle model. In the **compensatory model**, a similar method of scoring is used as the weighted model but permits a high score in an important area to make up for a lower score in another area. In our Figure 5.4 example, ability to give bad news to a client might outweigh a test score. These decisions would be made before the interviews happen.

A **multiple cutoff model** requires that a candidate has a minimum score level on all selection criteria. In our Figure 5.4 example, the candidate may be required to have a score of at least 2 out of 5 on each criteria. If this was the case, the candidate in Figure 5.4 scored low on “bad news to a client,” meaning he or she wouldn’t get the job in a multiple cutoff model. In the **multiple hurdle model**, only candidates with high (preset) scores go to the next stages of the selection process. For example, the expectations might be to score a 4 on at least three of the items in Figure 5.4. If this were the case, this candidate might make it to the next level of the selection process, since he or she scored at least a 4 on three criteria areas.

Once the discussion on whom to hire has occurred and a person has been selected, the final phase of the process is to make an offer to the candidate. This is discussed in Section 5.

**FIGURE 5.4 Sample Selection Model, with Sample Scores and Weighting Filled In**

Job Criteria	Rating*	Weight**	Total	Comments
Dress	4	1	4	<i>Candidate dressed appropriately.</i>
Personality	2	5	10	<i>Did not seem excited about the job.</i>
<b>Interview questions</b>				
Give an example of a time you showed leadership.	3	3	9	<i>Descriptive but didn't seem to have experience required.</i>
Give an example of when you had to give bad news to a client.	0	5	0	<i>Has never had to do this.</i>
Tell us how you have worked well in a team.	5	4	20	<i>Great example of teamwork given.</i>
Score on cognitive ability test.	78	5	390	<i>Meets minimum required score of 70.</i>
Work sample rating.	5	5	25	<i>Excellent work samples.</i>
			458	

\*Rating system of 1-5, with 5 being the highest

\*\*Weighting of 1-5, with 5 being the most important

#### compensatory model

A statistical method of scoring applicants, this model permits a high score in an important area to make up for a lower score in another area.

#### multiple cutoff model

A statistical method of scoring applicants that requires a candidate to have a minimum score level on all selection criteria.

#### multiple hurdle model

A statistical method of scoring applicants that allows only candidates with high (preset) scores to go to the next stages of the selection process.

## KEY TAKEAWAYS

- Once the interview process is complete, some companies use other means of measuring candidates. For example, work samples are an excellent way of seeing how someone might perform at your company.
- An *aptitude test* or *achievement test* can be given. An aptitude test measures how well someone might be able to do something, while an achievement test measures what the candidate already knows. Tests that measure cognitive ability and personality are examples.
- Some organizations also perform drug tests and physical tests. A physical test might consist of being able to lift a certain amount of weight, if required for the job. Honesty tests are also given; these measure the honesty level of the candidate. However, these tests may not be reliable, since someone can guess the “right” answer.
- Facebook, Twitter, and other social networking websites are also used to gather information about a candidate. Calling references is another option.
- Every person interviewing the candidate should have a selection model; this method utilizes a *statistical approach* as opposed to a *clinical approach*. The selection table lists the criteria on the left and asks interviewers to provide a rating for each. This method can allow for a more consistent way of measuring candidates.

## EXERCISES

1. Develop a sample candidate selection for your current job.
2. Visit your or another person’s Facebook page. Consider the content from an interviewer’s point of view. Should anything be removed or changed?

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## 5. MAKING THE OFFER

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## LEARNING OBJECTIVE

1. Explain the steps in making the offer to the candidate.

Oftentimes once the decision is made to hire a candidate, HR professionals feel their job is finished. But making the offer to the chosen candidate can be equally as important as the interview process. If the offer is not handled properly, you can lose the candidate, or if the candidate takes the job, he or she could start off on the wrong foot.

According to Paul Falcone, vice president for human resources at the *Fortune* 500 company Time Warner, detailed information should be asked of the candidate before the offer is even made.<sup>[16]</sup> He says that as soon as the offer is made, power is shifted to the candidate. To handle this, he suggests asking salary questions in the interview, including the following:

1. “If we were to make a job offer today, when would you be in a position to accept or reject the offer?” If the candidate answers “right now,” this indicates they do not have other job offers on the table or if they do, you are their first choice.
2. “At what point, dollar wise, would you accept our job offer and at what point, dollar wise would you reject the offer?” The advantage of using this strategy is that it gets to the point of understanding the candidate’s expectations. If the interviewee does not respond right away, you can clarify by asking, “I am asking this question because I would like to gauge your interest level. Share with me the ideal salary offer versus at what point you would be willing to walk away from this opportunity.”

Asking these questions can assist in qualifying candidates, based on salary expectations. For example, if a candidate requests 20 percent more than you are able to pay for the job, this discussion can be had before the offer is even made, perhaps making this candidate no longer viable.

Once you have determined in the interview process that the salary expectation is in the range of what you can offer, the first step is to make the offer as soon as the decision is made. In a tight labor market, waiting a week or two may impact your ability to hire your first choice. You probably already have a salary range in mind and can begin to narrow down the offer based on the individual's KSAOs. Based on the range of salary you can offer, consider the following questions when making the offer to a candidate:

- What is the scarcity of the particular skills set?
- What are the “going” wages in your geographic area?
- What are the current economic conditions?
- What is the current pay for similar positions in your organization?
- What is your organizational compensation strategy?
- What is the fair market value of the job?
- What is the level of the job within the organization?
- What are your budget constraints?
- How soon will the employee be productive in the organization?
- Are there other candidates equally qualified that might have lower salary expectations?
- What are the national and regional unemployment rates?
- If you cannot pay more, can you offer other perks such as a signing bonus or flexible work schedule?

Once the offer has been made, it is reasonable to give the candidate some time to decide, but not too long, as this can result in losing other candidates should this candidate reject the job offer. It is likely the candidate may come back and ask for higher salary or benefits. Some tips to successfully negotiate are included below and in Video 5.4:

1. Be prepared. Know exactly what you can and can't offer.
2. Explain the career growth the organization can provide.
3. Address the benefits of the candidate's joining the organization.
4. Discuss the entire offer, including other benefits offered to the employee.
5. View the negotiation as a win-win situation.
6. Be able to provide salary research of similar positions and competitors for the same job title.
7. Use the trading technique. For example, “I cannot offer you the salary you are requesting right now, but what if we were able to review salary at your six-month performance review, assuming \_\_\_\_ objectives are met?”

Once the phone call is made and the candidate accepts the offer, an e-mail or formal letter should follow, outlining details of the employment agreement. The employment agreement or offer letter should include the following:

1. Job title
2. Salary
3. Other compensation, such as bonuses or stock options
4. Benefits, such as health-care coverage, 401(k)
5. Vacation time/paid holidays
6. Start date
7. Noncompete agreement expectations
8. Additional considerations such as relocation expenses

Once the pay and benefits package has been successfully negotiated and the offer letter (or e-mail) sent, you should clarify acceptance details in writing and receive confirmation of the start date. It is not unusual for people in higher-level positions to need a month or even two to transition from their old jobs. During this period, make sure to stay in touch and even complete the new hire paperwork in the meantime.





## Pirates of the Caribbean Negotiation Analysis

This lively video, using the movie *Pirates of the Caribbean*, offers great analysis and tips on how to successfully negotiate just about anything.



View the video online at: <http://www.youtube.com/v/xjQ5OomkVpg>

### KEY TAKEAWAYS

- The HR professional's job isn't finished once the selection is made. The next step is to actually make the offer. This step is important, because if it isn't done properly, you could lose the candidate or have ill feelings at the onset of the employment relationship.
- Once you have made the decision to hire someone, make the offer to the candidate right away. Normally this is done through a phone call and a follow-up e-mail, outlining the details of the offer.
- It is not unusual for someone to negotiate salary or benefits. Know how far you can negotiate and also be aware of how your current employees will be affected if you offer this person a higher salary.
- If you are having trouble coming to an agreement, be creative in what you can offer; for example, offer flextime instead of higher pay.

### EXERCISE

1. Research "salary negotiation" on the Internet. What tips are provided for job seekers? Do you think these same tips could apply to the HR professional? Why or why not?

## 6. CASES AND PROBLEMS

### Chapter Summary

- The *selection process* refers to the steps involved in choosing someone who has the right qualifications to fill a current or future job opening.
- There are five main steps in the selection process. First, criteria should be developed to determine how the person will be chosen. Second, a review of the applications and résumés is conducted, often via a computer program that can find keywords. Next, interview the employee. The last steps involve administering tests, such as a personality test or drug test, and making the offer to the right candidate.
- The first step in selection is to review résumés. Even before you do this, though, it is important to develop criteria against which each candidate will be measured. Criteria can come from the job description as well as the job qualifications.
- Other tools, such as cognitive ability tests, credit checks, or personality tests, can be used to determine qualifications. When developing your criteria for interviewing, determine the level the applicant needs to meet to meet the minimum criteria—for example, a minimum score for a personality test.



- We should be concerned with validity and reliability of measurement tools. *Validity* refers to how valid the test is—that is, how well a test measures a candidate's abilities to do a job. *Reliability* refers to which selection techniques yield similar data or results over time. It is important to choose the right measurement tool used to determine whether the candidate meets the criteria.
- Use of criteria before the interview process starts is also important to make sure *disparate impact* or *disparate treatment* do not occur in the interview process.
- When hiring, there is the option of internal and external candidates. Each has its own set of advantages and disadvantages. Internal candidates may be able to “hit the ground running” but external candidates may come in with new perspectives. Even if an internal candidate seems to be the best hire, it is best to still perform the process of posting the job and interviewing, since other less vocal employees might be qualified internal candidates as well. In other words, don't assume one person is the obvious choice for the promotion.
- Traditional, telephone, panel, informational, meal, group, and video are types of interviews. A combination of several of these may be used to determine the best candidate for the job. A *structured interview* format means the questions are determined ahead of time, and *unstructured* means the questions are based on the individual applicant. The advantage of a structured interview is that all candidates are rated on the same criteria. Before interviewing occurs, criteria and questions for a structured interview should be developed.
- Interview questions can revolve around *situational questions* or *behavioral questions*. Situational questions focus on asking someone what they would do in a given situation, while behavioral questions ask candidates what they would have done in certain situations.
- Interview questions about national origin, marital status, age, religion, and disabilities are illegal. To avoid any legal issues, it is important for interviewers to be trained on which questions cannot be asked. The *halo effect*, which assumes that one desirable trait means all traits are desirable, should also be avoided.
- The process involved in interviewing a person includes the following steps: recruit new candidates; establish criteria for which candidates will be rated; develop interview questions based on the analysis; set a time line for interviewing and decision making; connect schedules with others involved in the interview process; set up interviews with candidates and set up any testing procedures; interview the candidates and perform any necessary testing; and once all results are back, meet with the hiring team to discuss each candidate and make a decision based on the established criteria. Finally, put together an offer for the candidate.
- Developing a rapport, being honest, and managing the interview process are tips to having a successful interview.
- Once the interview process is complete, some companies use other means of measuring candidates. For example, work samples are an excellent way of seeing how someone might perform at your company.
- An *aptitude test* or *achievement test* can be given. An aptitude test measures how well someone might be able to do something, while an achievement test measures what the candidate already knows. Tests that measure cognitive ability and personality are examples.
- Some organizations also perform drug tests and physical tests. A physical test might consist of being able to lift a certain amount of weight, if required for the job. Honesty tests are also given, which measure the honesty level of the candidate. However, these tests may not be reliable, since someone can guess the “right” answer.
- Facebook, Twitter, and other social networking websites are used to gather information about a candidate. Calling references is another option.
- Every person interviewing the candidate should have a selection model; this method utilizes a *statistical approach* as opposed to a *clinical approach*. The selection table lists the criteria on the left and asks interviewers to provide a rating for each. This method can allow for a more consistent way of measuring candidates.
- The job of the HR professional isn't finished once the selection is made. The next step is to make the offer. This step is important, because if it isn't done properly, you could lose the candidate or have ill feelings at the onset of the employment relationship.
- Once you have made the decision to hire someone, make the offer to the candidate right away. Normally this is done through a phone call and a follow-up e-mail, outlining the details of the offer.
- It is not unusual for someone to negotiate salary or benefits. Know how far you can negotiate, and also be aware of how your current employees will be affected if you offer this person a higher salary.
- If you are having trouble coming to an agreement, be creative in what you can offer; for example, offer flextime instead of higher pay.

### Summary

The author provides a video summary of the chapter.



View the video online at: <http://app.wistia.com/embed/medias/f8842ef0d1>

## Chapter Case

### The Four-Fifths Rule

The four-fifths rule is a way of measuring adverse impact in selection processes of organizations. It works like this: assume your organization requires a cognitive test for employment. You set a test score of 70 as the required pass rate for the candidate to be considered for an interview. Based on our numbers, if 50 percent of men passed this test with a score of 70, then four-fifths or 40 percent of women should also be able to pass the test. You might calculate it like this:

Gender	Total who scored 70 or above	Total who took the test	Percent
Male	52	62	83.8 or 84% passed
Female	36	58	62.07 or 62%

If you divide the total of who scored above 70 by the total number who took the test, it shows the percentage of 84 percent passed the test. If you divide the number of women who passed by the total number of women who took the test, you come up with 62 percent. Then divide 62 percent by 84 percent ( $62/84 = 73.8\%$ ). The resulting 74 percent means that it is below the 80 percent or the four-fifths rule, and this test could be considered to have disparate impact.

$52/62 = 84\%$  of men who took the test passed the test

$36/58 = 62\%$  of women who took the test passed the test

$62/84 = 73.8\%$ , less than 80%, which could show disparate impact

This is only an indicator as to how the selection process works for the organization, and other factors, such as sample size, can impact the reliability of this test. Using the tables below, please calculate possible disparate impact and then answer the questions that follow.

National Origin	Passing Test Score	Total Number Taking the Test	Percent
Caucasians	56	89	
Minority groups	48	62	

Age	Passing Test Score	Total Number Taking the Test	Percent
People under 40	28	52	
People over 40	23	61	

Gender	Passing Test Score	Total Number Taking the Test	Percent
Male	71	82	
Female	64	85	

1. Please calculate the above numbers using the four-fifths rule. Based on your calculation:
  - a. Which group or groups might be affected negatively by this test?
  - b. What would be your considerations before changing any selection tools based on this data?
  - c. How might you change your selection process to ensure disparate impact isn't occurring at your organization?

### Team Activity

1. In a team of two, take the Big Five personality test online (<http://www.outofservice.com/bigfive/>) and compare scores.
2. Assume you are hiring a retail salesperson and plan to administer the same Big Five personality test you took above. In your team, develop minimum percentile scores for each of the five areas that would be acceptable for your new hire.

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## CHAPTER 6

# Compensation and Benefits

### MATCHING COMPENSATION WITH CORE VALUES

As you sit down to review the compensation package your company offers, one thing that stands out is that your compensation package no longer matches the core values of your organization. When your organization merged five years ago with a similar firm that specializes in online shoe retailing, your company had to hire hundreds of people to keep up with growth. As a result—and what happens with many companies—the compensation plans are not revised and revisited as they should be. The core values your company adopted from the merging company focused on customer service, freedom to work where employees felt they could be most productive, and continuing education of employees, whether or not the education was related to the organization. The compensation package, providing the basic salary, health benefits, and 401(k) plans, seems a bit old-fashioned for the type of company yours has become.

After reviewing your company's strategic plan and your human resource management (HRM) strategic plan, you begin to develop a compensation plan that includes salary, health benefits, and 401(k) plans, but you feel it might be smart to better meet the needs of your employees by making some changes to these existing plans. For example, you are considering implementing a team bonus program for high customer service ratings and coverage for alternative forms of medicine, such as acupuncture and massage. Instead of guessing what employees would like to see in their compensation packages, you decide to develop a compensation survey to assess what benefits are most important to your employees. As you begin this task, you know it will be a lot of work, but it's important to the continued recruitment, retention, and motivation of your current employees.



#### Compensation and Benefits Introduction

The author introduces the chapter on compensation and benefits.



View the video online at: <http://app.wistia.com/embed/medias/1e761e3309>

## 1. GOALS OF A COMPENSATION PLAN

### LEARNING OBJECTIVE

#### 1. Be able to explain the goals of a compensation plan.

So far, we have discussed the process for strategic plan development and the recruitment and selection process. The next aspect of HRM is to develop compensation plans that will help in the recruitment and retention of employees. This is the topic of this chapter.

Most of us, no matter how much we like our jobs, would not do them without a compensation package. When we think of compensation, often we think of only our paycheck, but compensation in terms of HRM is much broader. A **compensation package** can include pay, health-care benefits, and other benefits such as 401(k) plans, which will all be discussed in this chapter. Before we discuss specifics, you should be aware of courses and certifications that can be earned through the WorldatWork Society of Certified Professionals, specifically related to compensation (other certifications will be discussed in their respective chapters).

WorldatWork offers several certifications in the area of compensation:

- Certified Compensation Professional (CCP)
- Certified Benefits Professional (CBP)
- Certified Sales Compensation Professional (CSCP)
- Certified Executive Compensation Professional (CECP)

These certifications involve taking a multiple-choice exam online or at one of the WorldatWork testing locations. The exams test for knowledge, experience, and skills in each of the compensation certification areas and can be a valuable asset to you when applying for HR positions.

The certifications are based on many of the aspects of this chapter, including understanding the goals of compensation packages for employees, which is our focus for this section.

First, the compensation package should be positive enough to attract the best people for the job. An organization that does not pay as well as others within the same industry will likely not be able to attract the best candidates, resulting in a poorer overall company performance.

Once the best employees and talent come to work for your organization, you want the compensation to be competitive enough to motivate people to stay with your organization. Although we know that compensation packages are not the only thing that motivates people, compensation is a key component. We discuss other motivations in Chapter 10.

Third, compensation can be used to improve morale, motivation, and satisfaction among employees. If employees are not satisfied, this can result not only in higher turnover but also in poor quality of work for those employees who do stay. A proper compensation plan can also increase loyalty in the organization.

Pay systems can also be used to reward individual or team performance and encourage employees to work at their own peak performance. In fact, in the 2011 list of the Best Companies to Work For by *Fortune* magazine, all the companies who topped the list (SAS and Boston Consulting Group, for example) had satisfied employees—not only with their pay, but their entire benefits package.<sup>[1]</sup>

With an appropriate pay system, companies find that customer service is better because employees are happier. In addition, having fairly compensated, motivated employees not only adds to the bottom line of the organization but also facilitates organizational growth and expansion. Motivated employees can also save the company money indirectly, by not taking sick days when the employee isn't really sick, and companies with good pay packages find fewer disability claims as well.

So far, our focus on HRM has been a strategic focus, and the same should be true for development of compensation packages. Before the package is developed for employees, it's key to understand the role compensation plays in the bottom line of the organization. For example, in 2010, the US military spent 22 percent of its budget on personnel salaries.<sup>[2]</sup> One-fifth of the total budget—or more—is not uncommon for most US organizations, depending on the industry. As a result, it is easy to see why the compensation plan should be an important aspect of the overall HRM strategic plan. The next few sections will detail the aspects of creating the right compensation packages: for your organization, including legal considerations.

**FIGURE 6.1**

The goal of a compensation plan is not only to attract people, but to retain them.



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#### compensation package

Includes all aspects of how employees are rewarded for their work, such as pay, benefits, bonuses, and 401(k) plans.

## Human Resource Recall

If you have had or currently have a job, do you feel the compensation plan motivated you? Why or why not?

### KEY TAKEAWAYS

- A compensation package is an important part of the overall strategic HRM plan, since much of the company budget is for employee compensation.
- A *compensation package* can include salary, bonuses, health-care plans, and a variety of other types of compensation.
- The goals of compensation are to attract people to work for your organization and to retain people who are already working in the organization.
- Compensation is also used to motivate employees to work at their peak performance and improve morale.
- Employees who are fairly compensated tend to provide better customer service, which can result in organizational growth and development.

### EXERCISE

1. Visit a website that gives salary information for a variety of jobs, such as <http://www.salary.com>. Using the search box, type in your ideal job and research salary information. What is the median salary for the job you searched? What is the lowest salary you would be willing to accept for this job? At which point would you be completely satisfied with the pay for this job?

## 2. DEVELOPING A COMPENSATION PACKAGE

### LEARNING OBJECTIVES

1. Be able to explain the internal and external considerations of compensation package development.
2. Know how to develop a compensation philosophy.

There are a few basic aspects of compensation packages we should discuss before moving into the specific aspects of compensation. These foundations can assist in the development of a compensation strategy that meets the goals of your organization and is in line with your strategic plan.

Before beginning work on your compensation packages, some analysis should be done to determine your organization's philosophy in regard to compensation. Before development of your compensation philosophies, there are some basic questions to address on your current compensation packages.

1. From the employee's perspective, what is a fair wage?
2. Are wages too high to achieve financial health in your organization?
3. Do managers and employees know and buy-into your compensation philosophy?
4. Does the pay scale reflect the importance of various job titles within the organization?
5. Is your compensation good enough to retain employees?
6. Are state and federal laws being met with your compensation package?
7. Is your compensation philosophy keeping in line with labor market changes, industry changes, and organizational changes?

Once these basic questions are addressed, we can see where we might have "holes" in our compensation package and begin to develop new philosophies in line with our strategic plan, which benefits the organization. Some possible compensation policies might include the following:

1. Are salaries higher or lower depending on the location of the business? For example, orthopedic surgeons are paid higher in the North Central states (\$537,000) than in Hawaii (\$250,000),



according to the Medscape Physical report of 2011.<sup>[3]</sup> Reasons could include cost of living in the area and fewer qualified people in a given area, giving them leverage to ask for a higher salary.

2. Are salaries lower or higher than the average in your region or area? If the salary is lower, what other benefits will the employee receive to make up for this difference? For example, wages might not be as high, but offering flextime or free day care might offset the lower salary.
3. Should there be a specific pay scale for each position in the organization, or should salaries be negotiated on an individual basis? If there is no set pay scale, how can you ensure individual salary offers are fair and nondiscriminatory?
4. What balance of salary and other rewards, such as bonuses, should be part of your compensation package? For example, some organizations prefer to offer a lower salary, but through bonuses and profit sharing, the employee has the potential to earn more.
5. When giving raises, will the employee's tenure be a factor, or will pay increases be merit based only, or a combination of both?

Let's discuss some internal and external factors in determining compensation in more detail.

## 2.1 Internal and External Pay Factors

One major internal factor is the compensation strategy the company has decided to use. Sixty-two percent of organizations have a written, documented compensation policy.<sup>[4]</sup>

Some organizations choose a market compensation policy, market plus, or market minus philosophy. A **market compensation policy** is to pay the going rate for a particular job, within a particular market based on research and salary studies. The organization that uses a market plus philosophy will determine the going rate and add a percentage to that rate, such as 5 percent. So if a particular job category median pays \$57,000, the organization with a market plus of 5 percent philosophy will pay \$59,850. A market minus philosophy pays a particular percentage less than the market; so in our example, if a company pays 5 percent less, the same job would pay \$54,150. The University of Arizona, for example, posts its compensation philosophy on its website:<sup>[5]</sup>

*In order to fulfill its mission, the University of Arizona shall maintain a compensation program directed toward attracting, retaining, and rewarding a qualified and diverse workforce. Within the boundaries of financial feasibility, employee compensation shall be externally competitive and internally equitable, and shall be based upon performance as recognized within the work unit.*

In addition to their compensation philosophy, the university lists compensation objectives, such as "average salaries will be targeted at the average salary levels of employees in comparable positions in our various labor markets." This is an example of a market compensation policy.

An example of an organization with a **market plus philosophy** is Cisco Systems, listed as one of the top-paying companies on *Fortune's* annual list.<sup>[6]</sup> For example, they pay \$131,716 for software engineers, while at Yahoo! software engineers are paid an average of \$101,669, using a market philosophy. The pay at Cisco reflects its compensation philosophy and objectives:

### market compensation policy

A compensation policy that pays similar to what the market offers.

### market plus philosophy

A compensation policy that determines the going rate and adds a percentage to the market rate, so pay is higher than the market.

*Cisco operates in the extremely competitive and rapidly changing high-technology industry. The Board's Compensation Committee believes that the compensation programs for the executive officers should be designed to attract, motivate, and retain talented executives responsible for the success of Cisco and should be determined within a framework based on the achievement of designated financial targets, individual contribution, customer satisfaction, and financial performance relative to that of Cisco's competitors. Within this overall philosophy, the Compensation Committee's objectives are to do the following:*

- < Offer a total compensation program that is flexible and takes into consideration the compensation practices of a group of specifically identified peer companies and other selected companies with which Cisco competes for executive talent*
- < Provide annual variable cash incentive awards that take into account Cisco's overall financial performance in terms of designated corporate objectives, as well as individual contributions and a measure of customer satisfaction*
- < Align the financial interests of executive officers with those of shareholders by providing appropriate long-term, equity-based incentives*

An example of an organization with a **market minus philosophy** is Whole Foods. The executive compensation for Whole Foods is a maximum of nineteen times the average store worker (or \$608,000), very low by *Fortune* 500 executive pay standards, which average 343 times.<sup>[7]</sup> According to John Mackey, Whole Foods CEO, paying on a market minus philosophy makes good business sense: “Fewer things harm an organization’s morale more than great disparities in compensation. When a workplace is perceived as unfair and greedy, it begins to destroy the social fabric of the organization.”<sup>[8]</sup> Another example of an organization with a market minus philosophy is Southwest Airlines. Despite the lower pay (and more hours), the organization boasts just a 1.4 percent turnover rate, which can be attributed not to pay but to the workplace culture and, as a result, loyalty to the company.<sup>[9]</sup>

There are many reasons why an organization would choose one philosophy over another. A market minus philosophy may tie into the company’s core values, as in Whole Foods, or it may be because the types of jobs require an unskilled workforce that may be easier and less expensive to replace. A company may use a market plus philosophy because the industry’s cutting-edge nature requires the best and the brightest.

Other internal pay factors might include the employer’s ability to pay, the type of industry, and the value of the employee and the particular job to the organization. In addition, the presence of a union can lead to mandated pay scales. Unions are discussed in Chapter 12.

External pay factors can include the current economic state. For example, in June 2011, the US unemployment rate was 9.2 percent, which is quite high for the country. As a result of surplus workers, compensation may be reduced within organizations because of oversupply of workers. Inflation and cost of living in a given area can also determine compensation in a given market.

Once an organization has looked at the internal and external forces affecting pay, it can begin to develop a pay system within the organization. We discuss how to develop a pay system in Section 3.

#### **market minus philosophy**

A compensation policy that determines the going rate and subtracts a particular percentage, so pay is less than the market.

### **KEY TAKEAWAYS**

- Before beginning work on a pay system, some general questions need to be answered. Important starting points include questions ranging from what is a fair wage from the employees’ perspectives to how much can be paid but still retain financial health.
- After some pay questions are answered, a pay philosophy must be developed, based on internal and external factors. Some companies implement a market compensation philosophy, which pays the going market rate for a job. Other companies may decide to utilize a market plus philosophy, which pays higher than the average. A company could decide its pay philosophy is a market minus philosophy, which pays less than the market rate. For example, an organization may decide to pay lower salaries but offer more benefits.
- Once these tasks are done, the HR manager can then build a pay system that works for the size and industry of the organization.

E X E R C I S E

1. Think of your current organization or a past organization. What do you think their pay policy is/was? Describe and analyze whether you think it was or is effective. If you haven't worked before, perform an Internet search on pay policies and describe/analyze the pay policy of an organization.

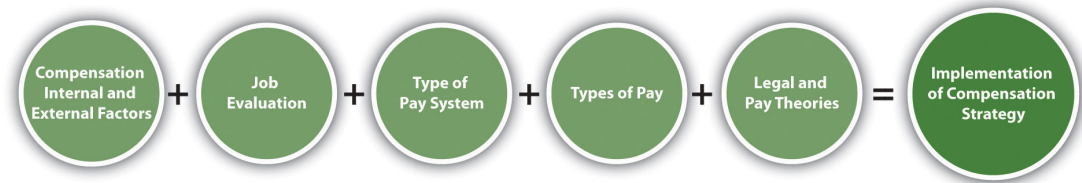
### 3. TYPES OF PAY SYSTEMS

L E A R N I N G O B J E C T I V E S

1. Explain types of job evaluation systems and their uses.
2. Be able to define and discuss the types of pay systems and factors determining the type of pay system used.
3. Know the laws relating to compensation.

Once you have determined your compensation strategy based on internal and external factors, you will need to evaluate jobs, develop a pay system, and consider pay theories when making decisions. Next, you will determine the mix of pay you will use, taking into consideration legal implications.

FIGURE 6.2 The Process for Implementing Compensation Strategy



#### 3.1 Job Evaluation Systems

**job evaluation**

The process of determining the relative worth of jobs to determine pay structure.

**paired comparison**

Individual jobs are compared with every other job, based on a ranking system, and an overall score is given for each job, determining the highest valued job for pay decisions.

As mentioned when we discussed internal and external factors, the value of the job is a major factor when determining pay. There are several ways to determine the value of a job through job evaluation. **Job evaluation** is defined as the process of determining the relative worth of jobs to determine pay structure. Job evaluation can help us determine if pay is equitable and fair among our employees. There are several ways to perform a job evaluation. One of the simplest methods, used by smaller companies or within individual departments, is a job ranking system. In this type of evaluation, job titles are listed and ranked in order of importance to the organization. A **paired comparison** can also occur, in which individual jobs are compared with every other job, based on a ranking system, and an overall score is given for each job, determining the highest-valued job to the lowest-valued job. For example, in Table 6.1, four jobs are compared based on a ranking of 0, 1, or 2. Zero indicates the job is less important than the one being compared, 1 means the job is about the same, and 2 means the job is more important. When the scores are added up, it is a quick way to see which jobs are of more importance to the organization. Of course, any person creating these rankings should be familiar with the duties of all the jobs. While this method may provide reasonably good results because of its simplicity, it doesn't compare differences between jobs, which may have received the same rank of importance.

TABLE 6.1 Example of a Paired Comparison for a Job Evaluation

Job	Receptionist	Project Manager	Account Manager	Sales	Director
Receptionist	X	0	0	0	0 = 4th
Project Administrative Assistant	1	X	0	0	1 = 3rd
Account Manager	2	1	X	0	3 = 2nd
Sales Director	2	2	2	X	6 = 1st

Based on the paired ranking system, the sales director should have a higher salary than the project administrative assistant, because the ranking for that job is higher. Likewise, a receptionist should be paid less than the project administrative assistant because this job ranks lower.

In a **job classification system**, every job is classified and grouped based on the knowledge and skills required for the job, years of experience, and amount of authority for that job. The US military is perhaps the best known for this type of classification system. The navy, for example, has job classification codes, such as HM (hospitalman). Then the jobs are divided into specialties, such as HM-8483, the classification for surgical technologist, and HM-8451 for a hospitalman-X-ray technician. The federal government and most state governments use this type of system. Tied to each job are the basic function, characteristics, and typical work of that job classification, along with pay range data. A sample of a job classification system is shown in Table 6.2.

**job classification system**

A job evaluation system in which every job is classified and grouped based on the knowledge and skills required for the job, years of experience, and amount of authority for a particular job.

**TABLE 6.2 Example of a Job Classification System at the University of Washington**

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
7715	ACCELERATOR TECHNICIAN 1		SEIU Local 925 Clerical Nonsupervisory	B4	40	\$2689	\$3583	Y
7300	ACCOUNTANT 1		SEIU Local 925 Clerical Nonsupervisory	B4	40	\$2689	\$3583	Y
7301	ACCOUNTANT 2		SEIU Local 925 Clerical Nonsupervisory	B4	44	\$2949	\$3956	N
7302	ACCOUNTANT, SENIOR		SEIU Local 925 Clerical Nonsupervisory	B4	50	\$3410	\$4587	N
7011	ACCOUNTING SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	50	\$3410	\$4587	N
7045	ADMINISTRATIVE ASSISTANT A		SEIU Local 925 Clerical Nonsupervisory	B4	39	\$2623	\$3493	Y
7044	ADMINISTRATIVE ASSISTANT A-SUPV		SEIU Local 925 Clerical Supervisory	B4	41	\$2751	\$3667	Y
7046	ADMINISTRATIVE ASSISTANT B		SEIU Local 925 Clerical Supervisory	B4	42	\$2816	\$3763	Y
7080	ADMINISTRATIVE COORDINATOR		SEIU Local 925 Clerical Nonsupervisory	B4	37	\$2506	\$3325	Y
7490	ADMISSIONS SPECIALIST		SEIU Local 925 Clerical Nonsupervisory	B4	41	\$2751	\$3667	Y
7583	AFFIRMATIVE ACTION/HUMAN RIGHTS ASST		SEIU Local 925 Clerical Nonsupervisory	B4	41	\$2751	\$3667	Y
8696	ALCOHOLISM THERAPIST 1		WFSE HMC	B0	56	\$3507	\$5021	Y
6119	ALCOHOLISM THERAPIST 2	359F	Classified Non-Union	C0	63	\$3761	\$5224	Y
6329	ANATOMIC PATHOLOGY LABORATORY LEAD	315H	Classified Non-Union	C0	73	\$4154	\$5771	Y
6328	ANATOMIC PATHOLOGY LABORATORY SUPERVISOR	315I	Classified Non-Union	C0	79	\$4412	\$6126	N
8146	ANATOMIC PATHOLOGY TECHNICIAN		SEIU Local 925-HMC Technical	B7	55	\$3472	\$4822	Y
8326	ANATOMIC PATHOLOGY TECHNICIAN		SEIU LOCAL 925 Medical/Laboratory Tech	B7	55	\$3472	\$4822	Y
8145	ANATOMIC PATHOLOGY TECHNICIAN TRAINEE		SEIU Local 925-HMC Technical	B7	40	\$2991	\$4155	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, <http://www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html> (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
8325	ANATOMIC PATHOLOGY TECHNICIAN TRAINEE		SEIU LOCAL 925 Medical/Laboratory Tech	B7	40	\$2991	\$4155	Y
8147	ANATOMIC PATHOLOGY TECHNOLOGIST		SEIU Local 925-HMC Technical	B7	66	\$3874	\$5383	Y
8327	ANATOMIC PATHOLOGY TECHNOLOGIST		SEIU LOCAL 925 Medical/Laboratory Tech	B7	66	\$3874	\$5383	Y
6313	ANESTHESIOLOGY TECHNICAL SERVICES SUPV	320H	Classified Non-Union	CA	61	\$3686	\$5277	N
6310	ANESTHESIOLOGY TECHNICIAN 1	320E	Classified Non-Union	CA	13	\$2287	\$3271	Y
8711	ANESTHESIOLOGY TECHNICIAN 1		WFSE HMC	BA	10	\$2219	\$3271	Y
8312	ANESTHESIOLOGY TECHNICIAN 2		SEIU LOCAL 925 Medical/Laboratory Tech	BS	46	\$3344	\$4933	Y
8960	ANESTHESIOLOGY TECHNICIAN 2		1199NW-HMC Respiratory/Anesthesiology	BS	46	\$3344	\$4933	Y
6311	ANESTHESIOLOGY TECHNICIAN LEAD	320G	Classified Non-Union	CA	52	\$3370	\$4826	Y
8959	ANESTHESIOLOGY TECHNICIAN LEAD		1199NW-HMC Respiratory/Anesthesiology	BS	53	\$3585	\$5288	Y
7724	ANIMAL TECHNICIAN 1		SEIU Local 925 Clerical Nonsupervisory	B4	25	\$1903	\$2506	Y
7725	ANIMAL TECHNICIAN 2		SEIU Local 925 Clerical Nonsupervisory	B4	26	\$1948	\$2567	Y
7726	ANIMAL TECHNICIAN 3		SEIU Local 925 Clerical Nonsupervisory	B4	30	\$2134	\$2816	Y
4727	ANIMAL TECHNICIAN SUPERVISOR	525H	Classified Non-Union	C1	35	\$2370	\$3063	Y
4658	ASSISTANT FACILITIES DESIGNER	540L	Classified Non-Union	C1	48	\$3213	\$4214	Y
8874	ASSISTANT STEAM ENGINEER		WFSE Skilled Trades	BL	46G	\$3566	\$4106	Y
8507	BAKER		WFSE Campuswide	BI	30	\$2113	\$2789	Y
8508	BAKER LEAD		WFSE Campuswide	BI	33	\$2266	\$2994	Y
4700	BIOMEDICAL ELECTRONICS TECHNICIAN 1	511E	Classified Non-Union	CA	54	\$3438	\$4924	Y
4701	BIOMEDICAL ELECTRONICS TECHNICIAN 2	511F	Classified Non-Union	CA	68	\$3954	\$5659	Y

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, <http://www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html> (accessed September 14, 2011).

Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
4702	BIOMEDICAL ELECTRONICS TECHNICIAN 3	511G	Classified Non-Union	CA	78	\$4368	\$6249	Y
4703	BIOMEDICAL ELECTRONICS TECHNICIAN LEAD	511H	Classified Non-Union	CA	83	\$4591	\$6568	Y
4704	BIOMEDICAL ELECTRONICS TECHNICIAN SUPV	511I	Classified Non-Union	CA	88	\$4826	\$6903	N
8875	BOILER OPERATOR		WFSE Skilled Trades	BL	42G	\$3247	\$3736	Y
7613	BOOK PRODUCTION COORDINATOR		SEIU Local 925 Clerical Nonsupervisory	B4	44	\$2949	\$3956	Y
7075	BOOKKEEPING MACHINE OPERATOR		SEIU Local 925 Clerical Nonsupervisory	B4	29	\$2088	\$2751	Y
7550	BROADCAST TECHNICIAN 1		SEIU Local 925 Clerical Nonsupervisory	B4	41	\$2751	\$3667	Y
7551	BROADCAST TECHNICIAN 2		SEIU Local 925 Clerical Nonsupervisory	B4	47	\$3166	\$4255	Y
7552	BROADCAST TECHNICIAN 3		SEIU Local 925 Clerical Nonsupervisory	B4	51	\$3493	\$4699	Y
7553	BROADCAST TECHNICIAN SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	55	\$3856	\$5186	N
7335	BUDGET ANALYST		SEIU Local 925 Clerical Nonsupervisory	B4	42	\$2816	\$3763	Y
7336	BUDGET/FISCAL ANALYST		SEIU Local 925 Clerical Nonsupervisory	B4	46	\$3093	\$4154	N
7337	BUDGET/FISCAL ANALYST LEAD		SEIU Local 925 Clerical Nonsupervisory	B4	51	\$3493	\$4699	N
7339	BUDGET/FISCAL OPERATIONS SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	57	\$4053	\$5448	N
7338	BUDGET/FISCAL UNIT SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	54	\$3763	\$5059	N
7021	BUILDING SERVICES COORDINATOR		SEIU Local 925 Clerical Nonsupervisory	B4	33	\$2289	\$3023	Y
7022	BUILDING SERVICES SUPERVISOR		SEIU Local 925 Clerical Supervisory	B4	38	\$2567	\$3410	Y
5215	BUILDINGS AND GROUNDS SUPERVISOR A	598G	Classified Non-Union	C1	49	\$3293	\$4322	N
5216	BUILDINGS AND GROUNDS SUPERVISOR B	598H	Classified Non-Union	C1	55	\$3819	\$5010	N

Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, <http://www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html> (accessed September 14, 2011).



Job Code	Job Title	State Job Class Code Reference	Representative Group	Pay Table	Pay Range	Minimum Mo. Rate	Maximum Mo. Incremental Rate	OT Eligible
7119	BUYER 1		SEIU Local 925 Clerical Nonsupervisory	B4	38	\$2567	\$3410	Y
7120	BUYER 2		SEIU Local 925 Clerical Nonsupervisory	B4	44	\$2949	\$3956	Y
7122	BUYER 3		SEIU Local 925 Clerical Nonsupervisory	B4	49	\$3325	\$4472	N

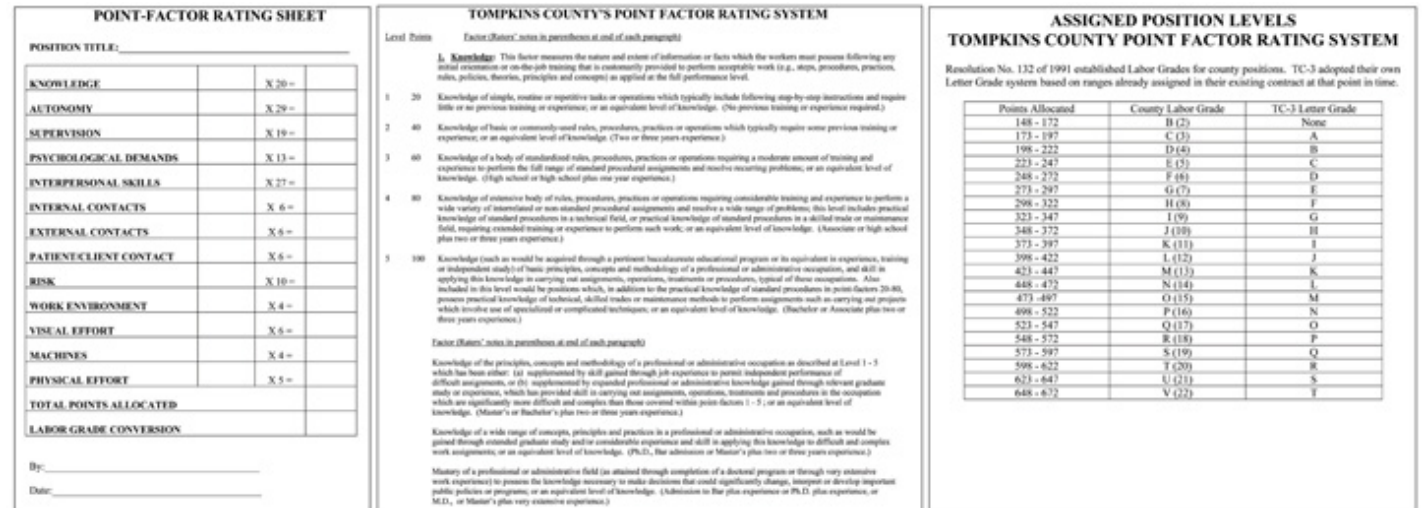
**Source: Reprinted from The University of Washington website, Compensation: A Division of Human Resources, <http://www.washington.edu/admin/hr/ocpsp/compensation/alpha.sort.files/alpha.sort.html> (accessed September 14, 2011).**

Another type of job evaluation system is the **point-factor system**, which determines the value of a job by calculating the total points assigned to it. The points given to a specific job are called **compensable factors**. These can range from leadership ability to specific responsibilities and skills required for the job. Once the compensable factors are determined, each is given a weight compared to the importance of this skill or ability to the organization. When this system is applied to every job in the organization, expected compensable factors for each job are listed, along with corresponding points to determine which jobs have the most relative importance within the organization. Tompkins County in New York uses a point-factor system. Some of their compensable factors include the following:

1. Knowledge
2. Autonomy
3. Supervision
4. Psychological demands
5. Interpersonal skills
6. Internal and external contacts

In this point-factor system, autonomy ranks the highest and is given a weight of twenty-nine, while knowledge is given a rate of twenty, for example. Each of the compensable factors has a narrative that explains how points should be distributed for each factor. In this system, one hundred points are given for knowledge for a bachelor's degree and two to three years of experience, and eighty points are given if an employee has an associate's degree or high school diploma and two to three years of experience. The points are then multiplied by the weight (for knowledge, the weight is twenty) to give a final score on that compensable factor. After a score is developed for each, the employee is placed on the appropriate pay level for his or her score, as illustrated in Figure 6.3.

**FIGURE 6.3 Example of a Point-Factor System**



**point-factor system**  
A job evaluation system that determines the value of a job by calculating the total points assigned to compensable factors.

**compensable factors**  
The aspects of a job that are assigned points in a point-factor system.

**Hay profile method**

A proprietary job evaluation method that focuses on three factors called know-how, problem solving, and accountability; this method is most applicable to management positions.

Another option for job evaluation is called the **Hay profile method**. This proprietary job evaluation method focuses on three factors called know-how, problem solving, and accountability. Within these factors are specific statements such as “procedural proficiency.” Each of these statements is given a point value in each category of know-how, problem solving, and accountability. Then job descriptions are reviewed and assigned a set of statements that most accurately reflect the job. The point values for each of the statements are added for each job description, providing a quantitative basis for job evaluation and eventually, compensation. An advantage of this method is its quantitative nature, but a disadvantage is the expense of performing an elaborate job evaluation.

## 3.2 Pay Systems

**pay grading**

The process of setting the pay scale for specific jobs.

Once you have performed a job evaluation, you can move to the third step, which we call **pay grading**. This is the process of setting the pay scale for specific jobs or types of jobs.

**pay grade levels**

A compensation model that looks at all jobs within the organization and assigns each job a pay level or pay grade.

The first method to pay grade is to develop a variety of **pay grade levels**. Figure 6.4 shows an example. Then once the levels are developed, each job is assigned a pay grade. When employees receive raises, their raises stay within the range of their individual pay grade, until they receive a promotion that may result in a higher pay grade. The advantage of this type of system is fairness. Everyone performing the same job is within a given range and there is little room for pay discrimination to occur. However, since the system is rigid, it may not be appropriate for some organizations in hiring the best people. Organizations that operate in several cities might use a pay grade scale, but they may add percentages based on where someone lives. For example, the cost of living in Spokane, Washington, is much lower than in New York City. If an organization has offices in both places, it may choose to add a percentage pay adjustment for people living within a geographic area—for example, 10 percent higher in New York.

**delaying and banding**

Similar to pay grade levels, but this structure offers more flexibility in that there are fewer pay grades, called bands, which allows for greater flexibility.

One of the downsides to pay grading is the possible lack of motivation for employees to work harder. They know even if they perform tasks outside their job description, their pay level or pay grade will be the same. This can incubate a stagnant environment. Sometimes this system can also create too many levels of hierarchy. For large companies, this may work fine, but smaller, more agile organizations may use other methods to determine pay structure. For example, some organizations have moved to a **delaying and banding** process, which cuts down the number of pay levels within the organization. General Electric delayed pay grades in the mid-1990s because it found that employees were less likely to take a reassignment that was at a lower pay grade, even though the assignment might have been a good development opportunity.<sup>[10]</sup> So, delaying enables a broader range of pay and more flexibility within each level. Sometimes this type of process also occurs when a company downsizes. Let’s assume a company with five hundred employees has traditionally used a pay grade model but decided to move to a more flexible model. Rather than have, say, thirty pay levels, it may reduce this to five or six levels, with greater salary differentials within the grades themselves. This allows organizations to better reward performance, while still having a basic model for hiring managers to follow.

**FIGURE 6.4** Sample Pay Scale for General Federal Jobs

**2011  
Base General Schedule Pay Scale**

RATES FROZEN AT 2010 LEVELS

EFFECTIVE JANUARY 2, 2011

**Note:** The following is a **BASE** pay scale. All U.S. locations (including Hawaii and Alaska) receive additional pay adjustments **above** the base pay ranging from **14.16%** to **35.15%**. To see the adjustment and pay scale for your location, scroll down the page and click on the location of your choice!

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 10	Step 9	WITHIN GRADE AMOUNTS
1	17803	18398	18990	19579	20171	20519	21104	21694	21717	22269	VARIES
2	20017	20493	21155	21717	21961	22607	23253	23899	24545	25191	VARIES
3	21840	22568	23296	24024	24752	25480	26208	26936	27664	28392	728
4	24518	25335	26152	26969	27786	28603	29420	30237	31054	31871	817
5	27431	28345	29259	30173	31087	32001	32915	33829	34743	35657	914
6	30577	31596	32615	33634	34653	35672	36691	37710	38729	39748	1019
7	33979	35112	36245	37378	38511	39644	40777	41910	43043	44176	1133
8	37631	38885	40139	41393	42647	43901	45155	46409	47663	48917	1254
9	41563	42948	44333	45718	47103	48488	49873	51258	52643	54028	1385
10	45771	47297	48823	50349	51875	53401	54927	56453	57979	59505	1526
11	50287	51963	53639	55315	56991	58667	60343	62019	63695	65371	1676
12	60274	62283	64292	66301	68310	70319	72328	74337	76346	78355	2009
13	71674	74063	76452	78841	81230	83619	86008	88397	90786	93175	2389
14	84697	87520	90343	93166	95989	98812	101635	104458	107281	110104	2823
15	99628	102949	106270	109591	112912	116233	119554	122875	126196	129517	3321

Pay rates for Senior Executive Service (SES), Senior Level (SL) and Scientific & Professional (ST) positions range from \$119,554 to \$179,700. NOTE: SL & ST employees receive the appropriate percentage pay adjustment for their area.

Rather than use a pay grade scale, some organizations use a **going rate model**. In this model, analysis of the going rate for a particular job at a particular time is considered when creating the compensation package. This model can work well if market pressures or labor supply-and-demand pressures greatly impact your particular business. For example, if you need to attract the best project managers, but more are already employed (lack of supply)—and most companies are paying \$75,000 for this position—you will likely need to pay the same or more, because of labor supply and demand. Many tools are available, such as salarywizard.com, to provide going rate information on particular jobs in every region of the United States.

**going rate model**

In this pay model, analysis of the going rate for a particular job is the basis for determining what people within the organization should be paid.



**Compensation Strategies**

The president of HR That Works provides some tips on determining compensation.



View the video online at: <http://www.youtube.com/v/xlx-5nMnQH0>

**management fit model**

In this model, each manager makes a decision about who much a new hire should be paid.

Another pay model is the **management fit model**. In this model, each manager makes a decision about who should be paid what when that person is hired. The downside to this model may be potential discrimination, halo effects, and resentment within the organization. Of course, these factors can create morale issues, the exact thing we want to avoid when compensating employees.

In addition to the pay level models we just looked at, other considerations might include the following:

1. **Skill-based pay.** With a skill-based pay system, salary levels are based on an employee's skills, as opposed to job title. This method is implemented similarly to the pay grade model, but rather than job title, a set of skills is assigned a particular pay grade.
2. **Competency-based pay.** Rather than looking at specific skills, the competency-based approach looks at the employee's traits or characteristics as opposed to a specific skills set. This model focuses more on what the employee can become as opposed to the skills he or she already has.
3. **Broadbanding.** Broadbanding is similar to a pay grade system, except all jobs in a particular category are assigned a specific pay category. For example, everyone working in customer service, or all administrative assistants (regardless of department), are paid within the same general band. McDonald's uses this compensation philosophy in their corporate offices, stating that it allows for flexibility in terms of pay, movement, and growth of employees.<sup>[11]</sup>
4. **Variable pay system.** This type of system provides employees with a pay basis but then links the attainment of certain goals or achievements directly to their pay. For example, a salesperson may receive a certain base pay but earn more if he or she meets the sales quota.

**How Would You Handle This?**

You have been working for your organization for five years. After lots of hard work, you are promoted to sales manager. One of your first tasks is to develop goals for your sales team, then create a budget based on these goals. First, you look at the salaries of all the sales staff to find major pay discrepancies. Some salespeople, who perform equally well, are paid much lower than some sales staff whom you consider to be nonperformers. As you dig deeper, you see this is a problem throughout the sales team. You are worried this might affect motivation for your team if they find out what others are making. How would you handle this?

**How Would You Handle This?**

The author discusses the How Would You Handle This situation in this chapter at: <https://api.wistia.com/v1/medias/1360653/embed>.

### 3.3 Pay Theories

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Now that we have discussed pay systems, it is important to look at some theories on pay that can be helpful to know when choosing the type of pay system your organization will use.

The **equity theory** is concerned with the relational satisfaction employees get from pay and inputs they provide to the organization. It says that people will evaluate their own compensation by comparing their compensation to others' compensation and their inputs to others' inputs. In other words, people will look at their own compensation packages and at their own inputs (the work performed) and compare that with others. If they perceive this to be unfair, in that another person is paid more but they believe that person is doing less work, motivational issues can occur. For example, people may reduce their own inputs and not work as hard. Employees may also decide to leave the organization as a result of the perceived inequity. In HR, this is an important theory to understand, because even if someone is being paid fairly, they will always compare their own pay to that of others in the organization. The key here is perception, in that the fairness is based entirely on what the employee sees, not what may be the actual reality. Even though HR or management may feel employees are being paid fairly, this may not be the employee's belief. In HR, we need to look at two factors related to pay equity: external pay equity and internal pay equity. External pay equity refers to what other people in similar organizations are being paid for a similar job. Internal pay equity focuses on employees within the same organization. Within the same organization, employees may look at higher level jobs, lower level jobs, and years with the organization to make their decision on pay equity. Consider Walmart, for example. In 2010, Michael Duke, CEO of Walmart, earned roughly \$35 million in salary and other compensation,<sup>[12]</sup> while employees earned minimum wage or slightly higher in their respective states. While Walmart contends that its wages are competitive in local markets, the retail giant makes no apologies for the pay difference, citing the need for a specialized skill set to be able to be the CEO of a *Fortune* 500 company. There are hundreds of articles addressing the issue of pay equity between upper

**equity theory**

A theory that says people will evaluate their own compensation by comparing their compensation to others' compensation.

level managers and employees of an organization. To make a compensation strategy work, the perceived inputs (the work) and outputs (the pay) need to match fairly.

The **expectancy theory** is another key theory in relation to pay. The expectancy theory says that employees will put in as much work as they expect to receive. In other words, if the employee perceives they are going to be paid favorably, they will work to achieve the outcomes. If they believe the rewards do not equal the amount of effort, they may not work as hard.

The **reinforcement theory**, developed by Edward L. Thorndike,<sup>[13]</sup> says that if high performance is followed by some reward, that desired behavior will likely occur in the future. Likewise, if high performance isn't followed by a reward, it is less likely the high performance will occur in the future. Consider an extreme example of the reinforcement theory in the world of finance. On Wall Street, bonuses for traders and bankers are a major part of their salary. The average bonus in 2010 was \$128,530,<sup>[14]</sup> which does not take into account specific commissions on trades, which can greatly increase total compensation. One interesting consideration is the ethical implications of certain pay structures, particularly commission and bonus plans. For example, after the US government bailed out American International Group (AIG) with \$170 billion in 2009, it was reported AIG would still provide some \$165 million in bonuses to the same business unit that brought the company to near collapse, because of contractual issues. Traditionally, a bonus structure is designed to reward performance, rather than be a guaranteed part of the compensation plan, as was the case with AIG. Bonus and commission plans should be utilized to drive desired behavior and act as a reward for the desired behavior, as the reinforcement theory states.

All these theories provide us information to make better decisions when developing our own pay systems. Other considerations are discussed next.

### 3.4 Pay Decision Considerations

Besides the motivational aspect of creating a pay structure, there are some other considerations. First, the size of the organization and the expected expansion of the organization will be a factor. For example, if you are the HR manager for a ten-person company, you likely use a going rate or management fit model. While this is appropriate for your company today, as your organization grows, it may be prudent to develop a more formal pay structure. Ascantium Corporation, based in Seattle, Washington, found this to be the case. When the company started with fewer than fifteen employees, a management fit model was used. As the company ballooned to over five hundred employees in four cities, a pay banding model had to be put into place for fairness.

If your organization also operates overseas, a consideration is how domestic workers will be paid in comparison to the global market. One strategy is to develop a centralized compensation system, which would be one pay system for all employees, regardless of where they live. The downside to this is that the cost of living may be much less in some countries, making the centralized system possibly unfair to employees who live and work in more expensive countries. Another consideration is in what currency employees will be paid. Most US companies pay even their overseas workers in dollars, and not in the local currency where the employee is working. Currency valuation fluctuations could cause challenges in this regard.<sup>[15]</sup> We further discuss some global compensation policies in Chapter 14.

How you communicate your pay system is extremely important to enhance the motivation that can be created by fair and equitable wage. In addition, where possible, asking for participation from your employees through the use of pay attitude surveys, for example, can create a transparent compensation process, resulting in higher performing employees.

Organizations should develop market pay surveys and review their wages constantly to ensure the organization is within expected ranges for the industry.

#### expectancy theory

The expectancy theory says that employees will put in as much work as they expect to receive reward for.

#### reinforcement theory

A theory that says that if high performance is followed by some reward, then it is more likely that the desired behavior will occur in the future.

#### Human Resource Recall

Why do you think a transparent compensation policy is so important to motivating a workforce?



**TABLE 6.3** Types of Pay

<b>Pay</b>	<b>Attributes</b>
Salary	Fixed compensation calculated on a weekly, biweekly, or monthly basis. No extra pay for overtime work.
Hourly Wage	Employees are paid on the basis of number of hours worked.
Piecework System	Employees are paid based on the number of items that are produced.
<b>Types of Incentive Plans</b>	<b>Attributes</b>
Commission Plans	An employee may or may not receive a salary but will be paid extra (e.g., a percentage for every sale made).
Bonus Plans	Extra pay for meeting or beating some goal previously determined. Bonus plans can consist of monetary compensation, but also other forms such as time off or gift certificates.
Profit-Sharing Plans	Annual bonuses paid to employees based on the amount of profit the organization earned.
Stock Options	When an employee is given the right to purchase company stock at a particular rate in time. Please note that a stock "option" is different from the actual giving of stock, since the option infers the employee will buy the stock at a set rate, obviously, usually cheaper than the going rate.
<b>Other Types of Compensation</b>	<b>Attributes</b>
Fringe Benefits	This can include a variety of options. Sick leave, paid vacation time, health club memberships, daycare services.
Health Benefits	Most organizations provide health and dental care benefits for employees. In addition, disability and life insurance benefits are offered.
401(k) Plans	Some organizations provide a retirement plan for employees. The company would work with a financial organization to set up the plan so employees can save money, and often, companies will "match" a percentage of what the employee contributes to the plan.

### 3.5 Types of Pay

After a pay system has been developed, we can begin to look at specific methods of paying our employees. Remember that when we talk about compensation, we are referring to not only an actual paycheck but additional types of compensation, such as incentive plans that include bonuses and profit sharing. We can divide our total pay system into three categories: pay, incentives, and other types of compensation. Pay is the hourly, weekly, or monthly salary an employee earns. An incentive, often called a pay-for-performance incentive, is given for meeting certain performance standards, such as meeting sales targets. The advantage to incentive pay is that company goals can be linked directly to employee goals, resulting in higher pay for the employee and goal achievement by the organization. The following are desirable traits of incentive plans:

- Clearly communicated
- Attainable but challenging
- Easily understandable
- Tied to company goals

Table 6.3 illustrates the three types of compensation.

Most organizations use a combination of pay, incentives, and other compensation, as outlined in Table 6.3, to develop the total compensation package.

### 3.6 Laws Relating to Pay

As you have already guessed from our earlier chapter discussions, people cannot be discriminated against when it comes to development of pay systems. One issue hotly debated is the issue of comparable worth. **Comparable worth** states that people should be given similar pay if they are performing the same type of job. Evidence over the years shows this isn't the case, with women earning less than men in many industries. On average, a woman earns 79 cents for every \$1.00 a man earns. For women of color, the gap is wider at 69 cents for African-American women and 59 cents for Latina women.<sup>[16]</sup> Many publications state that women earn less than men for a few reasons:

1. Women work fewer hours because of family care and maternity leave.
2. The career path or job choice of women tends to be lower as a whole.
3. There is a bias favoring men as the “breadwinners,” and therefore they are paid more.
4. Women are valued less than men in the workplace.
5. Women don't negotiate salaries as well as men do.

While the reasons are certainly debatable, there is evidence that young women (without children) entering the workforce actually earn more than their male counterparts, owing to higher levels of education.<sup>[17]</sup> As you may remember from Chapter 3, the EEOC covers discrimination in the workplace, including pay discrimination based on race, color, religion, sex, and national origin. The **Equal Pay Act** of 1963 makes it illegal to pay different wages to men and women if they perform equal work in the same workplace.

More recent legislation on pay includes the Lilly Ledbetter Fair Pay Act of 2009, the first law signed by President Obama. This bill amends the Civil Rights Act stating that the 180-day statute of limitations for filing an equal pay lawsuit regarding pay discrimination resets with each discriminatory paycheck. The bill stemmed from a lawsuit against Goodyear Tire and Rubber Company by Lilly Ledbetter, who claimed that her nineteen-year career at the company consisted of unfair pay, compared to male workers in the organization. Her complaint was time barred by the US Supreme Court, and the new act addressed the time (180 days) constraint in which people have to file claims.

The **Fair Labor Standards Act**, or **FLSA**, was established in 1938 and set a minimum wage for jobs, overtime laws, and child labor laws. FLSA divides workers into exempt and nonexempt status, and jobs under exempt status do not fall under the FLSA guidelines. An exempt employee is usually paid a salary and includes executive, professional, outside sales, and administrative positions. A nonexempt employee is usually an hourly employee. For nonexempt employees, some states may implement a higher minimum wage than that established by the federal government. For example, in 2011, the minimum wage is \$8.67 per hour in Washington State, while the federal minimum wage is \$7.25 per hour. Obviously, as an HR manager or manager, it is your responsibility to ensure everyone is being paid the minimum wage. This law also requires overtime pay if employees work over forty hours per week. Organizations must also post the FLSA poster in a visible part of the workplace, outlining these laws.

Child labor also falls under FLSA. The goal of these laws is to protect the education of children, prohibit the employment of children in dangerous jobs, and limit the number of working hours of children during the school year and other times of the year.<sup>[18]</sup>

According to the FLSA, tipped employees are those earning \$30 or more per month in tips, such as servers in a restaurant. Employers whose employees receive more than \$30 in tips may consider tips as part of wages, but they also must pay \$2.12 an hour in direct wages. They must also be able to show that the employee receives at least the applicable minimum wage. If the tips and direct wage do not meet the minimum wage, the employer must pay the difference.

Also relating to pay is the **Federal Unemployment Tax Act (FUTA)**. FUTA provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay a federal and a state unemployment tax, and portions of these funds go toward unemployment benefits should the worker lose his or her job. The **Federal Employees Compensation Act (FECA)** provides federal employees injured in the performance of their jobs compensation benefits, such as disability. Please note that this is elective for private companies but required of federal agencies.

#### comparable worth

States that people should be given similar pay if they are performing the same type of job.

#### Equal Pay Act

Passed in 1963, the act makes it illegal to pay different wages to men and women if they perform equal work in the same workplace.

#### Fair Labor Standards Act (FLSA)

A federal law established in 1938 that sets a minimum wage for jobs and other conditions for pay.

#### Fair Labor Standards Act (FLSA)

A federal law established in 1938 that sets a minimum wage for jobs and other conditions for pay.

#### Federal Unemployment Tax Act (FUTA)

FUTA provides for payments of unemployment compensation to workers who have lost their jobs.

#### Federal Employees Compensation Act (FECA)

Provides federal employees injured in the performance of their jobs compensation benefits, such as disability.





## Negotiating Salary

This video provides tips on negotiating salary from the perspective of an employee.



View the video online at: <http://www.youtube.com/v/er2km7Aja1o>

### KEY TAKEAWAYS

- A job evaluation system should be used to determine the relative value of one job to another. This is the first step in setting up a pay system.
- Several types of pay systems can be implemented. A *pay grade system* sets up specific pay levels for particular jobs, while a *going rate system* looks at the pay through the industry for a certain job title. *Management fit* gives maximum flexibility for managers to pay what they think someone should earn.
- HR managers can also develop pay systems based on skills and competency and utilize broadbanding, which is similar to pay grades. Another option might include variable pay.
- There are several motivational theories in regard to pay. First, the *equity theory* says that people will evaluate their own satisfaction with their compensation by comparing it to others' compensation. The *expectancy theory* says people will put in only as much work as they expect to receive in rewards. Finally, the *reinforcement theory* says if high performance is followed by a reward, high performance is likely to happen in the future.
- Other pay considerations include the size of the organization, whether the company is global, and the level of communication and employee involvement in compensation. HR managers should always be aware of what others are paying in the industry by performing market surveys.
- There are several laws pertaining to pay. Of course, the EEOC ensures that pay is fair for all and does not discriminate. *FLSA* sets a minimum wage and establishes standards for child labor. *FUTA* requires employers to pay unemployment taxes on employees. *FECA* ensures that federal employees receive certain benefits.

### EXERCISES

1. Name and describe three considerations in developing a pay system. Which do you think is best?
2. Which pay theory do you think is the most important when developing your pay system? Why?
3. Visit <http://www.dol.gov/dol/topic/wages/minimumwage.htm> (please note that sometimes web address change so you may need to search for the information), which publishes minimum wage data for the United States. View the map and compare your state with the federal minimum wage. Is it higher or lower? Which two states have the highest minimum wage? The lowest?

## 4. OTHER TYPES OF COMPENSATION

### LEARNING OBJECTIVE

1. Explain the various types of benefits that can be offered to employees.

As you already know, there is more to a compensation package than just pay. There are many other aspects to the creation of a good compensation package, including not only pay but incentive pay and other types of compensation. First, we will discuss benefits that are mandated by the federal government, and then we will discuss types of voluntary benefits, including both incentive pay and other types of compensation.

### 4.1 Mandated: Social Security and Medicare

The Social Security Act of 1935 requires employers to withdraw funds from workers' paychecks to pay for retirement benefits. This is called a payroll tax. Please note that all organizations are legally compelled to offer this benefit. After several revisions, we now call this **OASDHI** or the Old Age, Survivors, Disability, and Health Insurance Program. To be insured, employees must work forty quarters, with a minimum of \$1,000 earned per quarter. Once this money is put aside, anyone born after 1960 will receive benefits at 67. The OASDHI tax in 2011 is 4.2 percent on earnings for employees, up to \$106,800 and 6.2 percent for the employer up to the same limits. This covers both retirement income as well as medical benefits, called Medicare, once the employee reaches retirement age.

#### OASDHI

A federally mandated retirement program that stands for Old Age, Survivors, Disability, and Health Insurance Program and includes Social Security and Medicare.

### 4.2 Mandated: Unemployment Insurance and Workers' Compensation

Unemployment insurance is required under the Social Security Act of 1935 and is also called the Federal Unemployment Tax Act (FUTA). This program's goals include providing some lost income for employees during involuntary unemployment, helping workers find a new job, incentivizing employers to continue employment, and developing worker skills if they are laid off. The majority of this plan is funded by employers' payroll taxes, which account for .8 percent per employee. The rate is actually 6.2 percent of compensation, but employers are allowed a tax credit for these payments, which results in the net .8 percent. With this benefit, employees receive unemployment benefits and/or job training when they are laid off or let go from a current job. However, employees would be ineligible to receive these benefits if they quit their job, as it must be involuntary. Just like Social Security, this payroll tax on employers is required.

Some employers also offer workers' compensation benefits. If an employee is hurt on the job, he or she would receive certain benefits, such as a percentage of pay. Jobs are classified into risk levels, and obviously the higher the risk level, the higher the cost of insurance. This is not a federally mandated program, but for some occupations in some states, it may be a requirement.

### 4.3 Mandated: COBRA

While the government does not require companies to provide health-care and medical benefits to employees, the **Consolidated Omnibus Budget Reconciliation Act (COBRA)** requires companies to allow employees to extend their group coverage for up to thirty-six months. The restrictions for this plan include the requirement of a qualifying event that would mean a loss of benefits, such as termination or reduction in hours. For example, if an employee works forty hours a week with medical insurance, but the schedule is reduced to twenty hours, no longer qualifying him or her for benefits, COBRA would be an option.

#### Consolidated Omnibus Budget Reconciliation Act (COBRA)

A law enacted in 1985 that requires companies to allow employees to extend their group health-care coverage for up to thirty-six months.

### 4.4 Voluntary: Incentive Pay Systems

As we discussed earlier, there are several types of incentive pay systems that can be tied directly to business objectives and the employees' ability to help the company meet those objectives. They include commissions, bonuses, profit sharing, stock options, team pay, and merit pay.

**straight commission plan**

An incentive plan in which the employee receives no base pay and the entire pay is based on meeting sales goals.

**base pay**

The minimum pay an employee receives.

Commissions are usually calculated on the basis of a percentage and earned based on the achievement of specific targets that have been agreed upon by the employee and employer. For example, many salespeople receive commissions from each item sold. Many commission incentive plans require employees to meet a minimum level of sales, who then are paid a commission on each sale beyond the minimum. A **straight commission plan** is one in which the employee receives no base pay and entire pay is based on meeting sales goals. Many plans, however, include a **base pay** and commission for each sale. Base pay is the guaranteed salary the employee earns.

Several types of bonuses can be given to employees as incentive pay. Meeting certain company goals or successfully completing a project or other objectives can be tied to a bonus, which is a one-time payment to an employee. A spot bonus is an unplanned bonus given to an employee for meeting a certain objective. These types of bonuses do not always have to be money; they can be other forms such as a gift certificate or trip. Fifty-eight percent of WorldatWork members<sup>[19]</sup> said that they provide spot bonuses to employees for special recognition above and beyond work performance.

Some organizations choose to reward employees financially when the organization as a whole performs well, through the use of profit sharing as an incentive. For example, if an organization has a profit-sharing program of 2 percent for employees, the employees would earn 2 percent of the overall profit of the company. As you have guessed, this can be an excellent incentive for employees to both work as a team and also monitor their own personal performance so as not to let down the team. For example, in 2011, US automaker General Motors gave one of its highest profit-sharing payouts ever. Forty-five thousand employees received \$189 million in a profit-sharing bonus, which equaled about \$4,200 per person.<sup>[20]</sup> While profit sharing can be a great incentive, it can also be a large expense that should be carefully considered.

Employee ownership of the organization is similar to profit sharing but with a few key differences. In this type of plan, employees are granted **stock options**, which allow the employees to buy stock at a fixed price. Then if the stock goes up in value, the employee earns the difference between what he or she paid and the value of the stock. With this type of incentive, employees are encouraged to act in the best interest of the organization. Some plans, called **employee stock ownership plans**, are different from stock options, in that in these plans the employee is given stock as reward for performance.

In a smaller organization, team pay or group incentives can be popular. In this type of plan, if the group meets a specified goal, such as the increase of sales by 10 percent, the entire group receives a reward, which can consist of additional pay or bonus. Please note that this is different from individualized bonuses, discussed earlier, since the incentive is a reward for the group as opposed for the individual.

Merit pay is a pay program that links pay to how well the employee performs within the job, and it is normally tied to performance appraisals. Performance appraisals are discussed further in Chapter 10. Merit base is normally an annual pay increase tied to performance. The problem with merit pay is that it may only be received once per year, limiting incentive flexibility. To make merit pay work, performance guidelines should be predetermined. Some organizations offer **cost of living annual increases (COLAs)**, which is not tied to merit but is given to employees as an annual inflationary increase.

**stock option**

A type of incentive that allows the employees to buy stock at a fixed price.

**employee stock ownership plan**

A type of incentive that gives employees stock (ownership) in the organization.

**FIGURE 6.5**

Profit sharing and stock ownership can be a good way to motivate employees to work toward the goals of the organization.



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**Fortune 500 Focus**

While the cost of health insurance premiums may be going up for most Americans, these premiums do not hit the individual employee's pocketbook at Microsoft. Microsoft, based in Redmond, Washington, finds itself once again on the *Fortune* 500 Best Companies to Work For list in several areas, including paying for 100 percent of employees' health-care premiums.<sup>[21]</sup> In addition to cutting this cost for employees, Microsoft also offers domestic partner benefits, one of the first *Fortune* 500 companies to do so. In 2005, Microsoft also began to offer partial coverage for transgender surgery to its existing health-care coverage, which earned Microsoft the highest attainable score by the Human Rights Campaign (HRC) Equality Index.<sup>[22]</sup> Microsoft also promotes fitness and wellness as part of its health-care plan, providing an on-site fitness center and subsidized gym memberships.

**cost of living annual increase (COLA)**

A pay increase not tied to merit but given to employees as an annual inflationary increase.

**4.5 Voluntary: Medical Insurance**

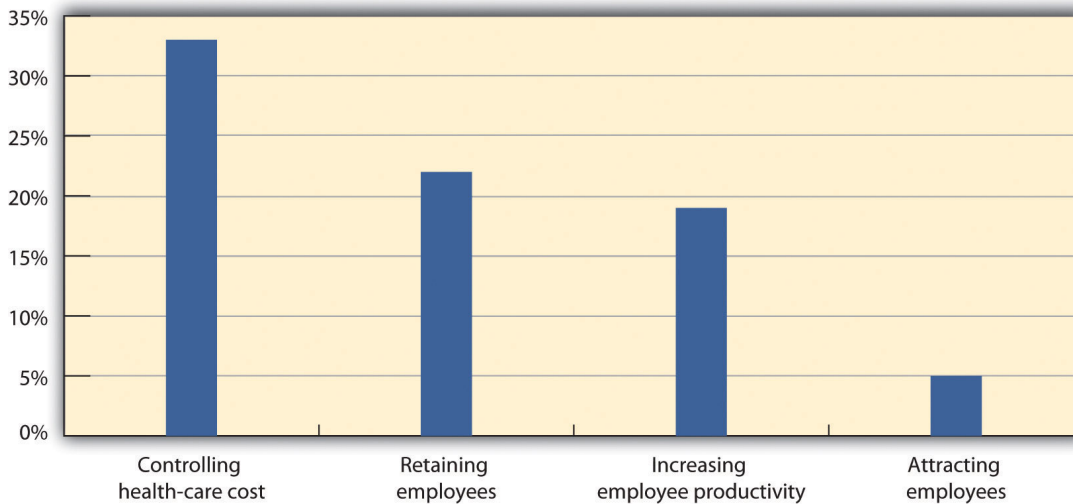
According to the Bureau of Labor Statistics, 62 percent of companies in 2010 offered health-care benefits to employees.<sup>[23]</sup> The yearly cost for employee medical insurance averages \$9,552, according to the 2009 Towers Perrin survey.<sup>[24]</sup> With such a significant cost to companies, it is up to HR managers to contain these costs, while not negatively affecting employee motivation. Medical insurance usually includes hospital expenses, surgical expenses, and routine health-care visits. Most insurance plans also allow for wellness visits and other alternative care (e.g., massage and acupuncture) within the plans.

Many employers also offer vision and dental care benefits as part of their benefits packages. Disability insurance is also provided by some employers as well. We will discuss each of these in detail next.

One important law to keep in mind regarding medical insurance is the Health Insurance Portability and Accountability Act (HIPAA) of 1996. It provides federal protections for personal health information held by covered entities, such as employers. In other words, employers cannot divulge or share health care information they may have on an employee.

### FIGURE 6.6

As you can see from MetLife's 9th annual study in 2010, cost containment is an important aspect to health-care plans.



Source: MetLife, "9th Annual Study of Employee Benefits Trends," 2010, <http://www.metlife.com/assets/institutional/services/insights-and-tools/ebts/Employee-Benefits-Trends-Study.pdf> (accessed July 23, 2011).

As the HR professional, it will likely be your responsibility to choose the health-care plan that best meets the needs of your employees. Some options include the following:

1. **Fee-for-service plans.** In this type of plan, people pay for medical expenses out of pocket, and then are reimbursed for the benefit level. For example, if your insurance plan covers doctor visits, you could see any doctor, pay the bill, and then submit payment to your insurer for reimbursement. Most companies will have a base plan, which covers more serious issues requiring hospitalization, while the major medical part of the plan would cover routine services, such as doctor's visits. As you can imagine, the disadvantage of this type of plan can be twofold: first, the initial expense for the employee, and second, the time it may take to receive reimbursement for employees. Remember that medical insurance can help retain and motivate employees and help you recruit new employees, so consideration of the disadvantages is important.
2. **Health maintenance organizations (HMOs).** The HMO will likely have greater coverage than the fee-for-service plan, but it limits the ability of employees to see the doctors they choose. There may be a limited number of physicians and specialists for the employee to see, and going outside the plan and seeing another doctor may result in an out-of-pocket expense for the employee. Most HMOs cover a wide range of medical issues and will usually require a copayment by the employee. Some may have minimum deductibles they must meet before the HMO will cover in full. For example, if you are part of an HMO with a deductible of \$500 and copayments of \$25, you would need to see the doctor for a value of \$500 (paid out of pocket) before you can begin to just make the \$25 copayment for visits. Some HMOs will not allow members to see a specialist, such as a dermatologist, without prior approval from the primary care physician.
3. **Preferred provider organization (PPO).** This type of medical plan is similar to HMOs but allows employees to see a physician outside the network. They will likely still have to pay a deductible as mentioned above, but PPOs do allow employees more freedom to see specialists, such as dermatologists.

**FIGURE 6.7**  
**Considerations When**  
**Choosing Medical**  
**Insurance**



#### disability insurance

A type of insurance that provides income to individuals (usually a portion of their salary) should they be injured or need long-term or short-term care resulting from an illness.

When choosing the best type of plan for your organization, the following aspects should be considered:

1. The cost of the plan
2. The type of coverage
3. The quality of the care
4. Administration of the plan

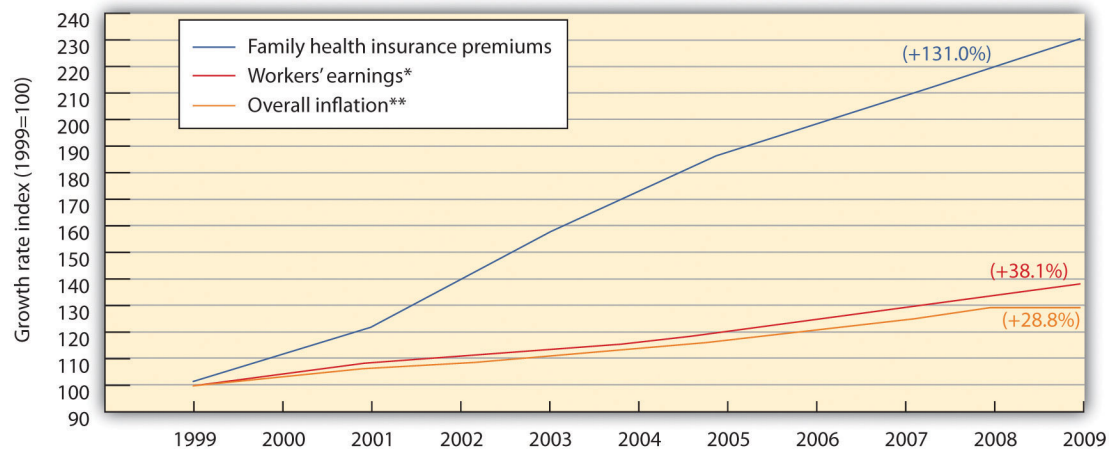
First, the cost is usually a major consideration for the HR professional. Developing a budget for health-care costs, initiating bids from possible providers, and then negotiating those bids is a key factor in controlling this cost for employers.

Second, asking for employees' opinions about the type of coverage they would prefer is a way to ensure your plan meets the needs of your employees. Next, consider the quality of care your employees will receive and, finally, how simple will the plan be for your HR department to administer. For example, many HMO plans offer fully automated and online services for employees, making them easy to administer.

**Disability insurance** provides income to individuals (usually a portion of their salary) should they be injured or need long-term care resulting from an illness. Short-term disability insurance (STD) provides benefits to someone if they are unable to work for six months or less, while long-term disability insurance (LTD) covers the employee for a longer period of time. Normally, disability insurance provides income to the employee that is 60–80 percent of their normal salary.

**FIGURE 6.8**

One of the biggest challenges in health-care benefits planning is to manage the growing cost of health insurance premiums for employees while still managing cost containment for the organization.



\* Workers' earnings as measured by average hourly earnings for private sector production workers.

\*\* Overall inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U).

Source: Economic Policy Institute, "The State of Working America: Health Premiums," <http://stateofworkingamerica.org/charts/growth-rate-of-premiums-earnings-and-inflation/> (accessed July 23, 2011).

## 4.6 Voluntary: 401(k) Plans

As the scenery of the workforce has changed, benefits have changed, too. One such recent change is the movement of employee pension plans to 401(k) plans. While some organizations still offer pension plans, such plans are far more rare. A pension plan is a set dollar amount an employee will receive when they retire from their organization. This type of plan was popular when most people worked their entire life at the same company. However, many pension plans have gone bankrupt, and the United States has an agency to protect people from losing pension benefits. The **Pension Benefit Guaranty Corporation (PBGC)** was created by the Employee Retirement Income Security Act (ERISA) to protect pension benefits in private sector pension plans. If a pension plan ends or isn't able to pay all benefits, PBGC's insurance program pays the benefit that should have been provided. Financing for this plan comes from insurance premiums paid by the companies whose plans PBGC protects.

As more mobility in the workplace has occurred, most organizations no longer offer pension plans, but instead, they offer 401(k) plans. While a pension plan can motivate employee loyalty, 401(k) plans are far more popular. According to the US Bureau of Labor Statistics, employer-provided

#### Pension Benefit Guaranty Corporation (PBGC)

A US government agency created by the Employee Retirement Income Security Act (ERISA) to protect pension benefits in private sector pension plans.



retirement plans, such as 401(k) plans, were available to 74 percent of all full-time workers in the United States,<sup>[25]</sup> while 39 percent of part-time workers had access to retirement benefits.

A 401(k) plan is a plan set up by the organization in which employees directly deposit money from their paycheck. The funds are tax deferred for the employee until retirement. If an employee leaves the job, their 401(k) plan goes with them. As an extra incentive, many organizations offer to match what the employee puts into the plan, usually based on a percentage. For example, an employee can sign up to contribute 5 percent of salary into a 401(k) plan, and the company will contribute the same amount. Most companies require a **vesting period**—that is, a certain time period, such as a year, before the employer will match the funds contributed.

Usually, 401(k) plans are easy to administer, after the initial setup has occurred. If the employer is matching employee contributions, the expense of such a plan can be great, but it also increases employee retention. Some considerations when choosing a 401(k) plan are as follows:

1. Is the vendor trustworthy?
2. Does the vendor allow employees to change their investments and account information online?
3. How much are the management fees?

It is first important to make sure the vendor you are considering for administration of your 401(k) plan has a positive reputation and also provides ease of access for your employees. For example, most 401(k) plans allow employees to change their address online and move investments from a stock to a bond. Twenty-four-hour access has become the expectation of most employees, and as a result, this is a major consideration before choosing a plan. Most 401(k) plans charge a fee to manage the investments of your employees. The management fees can vary greatly, so receiving a number of bids and comparing these fees is important to ensure your employees are getting the best deal.

It is important to mention the Employee Retirement Income Security Act (ERISA) here, as this relates directly to administration of your 401(k) plan. First, ERISA does not require employers to offer a pension or 401(k) plan, but for those who do, it requires them to meet certain standards when administering this type of plan. Some of these standards include the following:

1. Requires participants receive specific information about the plan, such as plan features and funding
2. Sets minimum standards for participation and vesting
3. Requires accountability of plan's fiduciary responsibilities
4. Requires payment of certain benefits, should the plan be terminated

## 4.7 Voluntary: Paid Time Off

Time off is a benefit we should address, since this type of benefit varies greatly, especially in other parts of the world. French companies, for example, are mandated by law to provide five weeks of paid vacation time to employees.<sup>[26]</sup> In the United States, the number of days off provided is a major budget item worth considering. Here are the general types of time off:

### Paid Holidays

Many companies offer a set number of paid holidays, such as New Year's Day, Memorial Day, Christmas, Independence Day, and Thanksgiving.

### Sick Leave

The number of sick leave days can vary greatly among employers. The average in the United States is 8.4 paid sick days offered to employees per year.<sup>[27]</sup>

### Paid Vacation

With full-time employment, many organizations also offer paid vacation to employees, and it is generally expected as part of the compensation package. According to a survey performed by Salary.com, the average number of paid vacation days in the United States is nine days for one year of service, fourteen days for five years of service, and seventeen days for ten years of service to the organization.<sup>[28]</sup>

Organizations vary greatly in how vacation time is accrued. Some organizations give one hour for a certain number of days worked, while others require a waiting period before earning any paid time off (PTO). In addition, some organizations allow their employees to carry over unused vacation time from one year to the next, while other employees must use their vacation every year or risk losing it.

### vesting period

For 401(k) plans, a certain time period before the employer will match the employee funds contributed.

### Paid Time Off (PTO)

One option is to provide a set number of days off, which can be used for vacation time, holidays, and/or sick leave.

To promote longevity, some organizations offer paid (or for example, 60 percent of salary paid) sabbaticals. For example, after five years of employment, the employee may take a paid sabbatical for one month.

## 4.8 A Final Note on Compensation and Benefits Strategy

When creating your compensation plan, of course the ability to recruit and retain should be an important factor. But also, consideration of your workforce needs is crucial to any successful compensation plan. The first step in development of a plan is to ask the employees what they care about. Some employees would rather receive more pay with fewer benefits or better benefits with fewer days off. Surveying the employees allows you, as the HR professional, to better understand the needs of your specific workforce. Once you have developed your plan, understand that it may change to best meet the needs of your business as it changes over time.

Once the plan is developed, communicating the plan with your employees is also essential. Inform your employees via an HR blog, e-mails, and traditional methods such as face to face. Your employees might not always be aware of the benefits cost to the company, so making sure they know is your responsibility. For example, if you pay for 80 percent of the medical insurance premiums, let your employees know. This type of communication can go a long way to allowing the employees to see their value to you within the organization.



### Compensation Strategies

Lynn Cameron, managing partner of TechEdge, discusses compensation strategies.



View the video online at: <http://www.youtube.com/v/NCGeEbPYzV0>



## KEY TAKEAWAYS

- Before beginning work on a pay system, some general questions need to be answered. Questions such as what is a fair wage from the employee's perspective and how much can be paid but still retain financial health are important starting points.
- After some pay questions are answered, development of a pay philosophy must be developed. For example, an organization may decide to pay lower salaries but offer more benefits.
- Once these tasks are done, the HR manager can then build a pay system that works for the size and industry of the organization.
- Besides salary, one of the biggest expenses for compensation is medical benefits. These can include health benefits, vision, dental, and disability benefits.
- Social Security and unemployment insurance are both required by federal law. Both are paid as a percentage of income by the employee and employer.
- Depending on the state, workers' compensation might be a requirement. A percentage is paid on behalf of the employee in case he or she is hurt on the job.
- A mandatory benefit, COBRA was enacted to allow employees to continue their health insurance coverage, even if they leave their job.
- There are three main types of health-care plans. A fee-based plan allows the insured to see any doctor and submit reimbursement after a visit. An HMO plan restricts employees to certain doctors and facilities and may require a copayment and/or deductibles. A PPO plan is similar to the HMO but allows for more flexibility in which providers the employee can see.
- Pension funds were once popular, but as people tend to change jobs more, 401(k) plans are becoming more popular, since they can move with the employee.
- Profit sharing is a benefit in which employees receive a percentage of profit the organization earns. Stock ownership plans are plans in which employees can purchase stock or are granted stock and become an owner in the organization.
- Team rewards are also a popular way to motivate employees. These can be in the form of compensation if a group or the company meets certain target goals.
- Paid time off, or PTO, can come in the form of holidays, vacation time, and sick leave. Usually, employees earn more days as they stay with the company.
- Communication with employees is key to a successful benefits strategy.

## EXERCISES

1. Of the benefits we discussed, which ones are required by law? Which are not?
2. Research current Federal Insurance Contributions Act (FICA) tax rates and Social Security limits, as these change frequently. Write down each of these rates and be prepared to share in class.
3. Describe the considerations when developing medical benefits. Which do you think would be the most important to you as the HR manager?
4. Visit websites of three companies you might be interested in working for. Review the incentives they offer and be prepared to discuss your findings in class.

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## 5. CASES AND PROBLEMS

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### Chapter Summary

- A *compensation package* is an important part of the overall strategic HRM plan, since much of the company budget is for employee compensation.
- A compensation package can include salary, bonuses, health-care plans, and a variety of other types of compensation.
- The goals of compensation are first to attract people to work for your organization. Second, they can be used to retain people who are already working in the organization.
- Compensation is also used to motivate employees to work at their peak performance and improve morale of the organization.
- Employees who are fairly compensated tend to provide better customer service, which can result in organizational growth and development.

- Several types of pay systems can be implemented. A *pay grade system* sets up specific pay levels for particular jobs, while a *going rate system* looks at the pay throughout the industry for a certain job title. *Management fit* gives maximum flexibility for managers to pay what they think someone should earn.
- HR managers can also develop pay systems based on skills and competency and utilize a *broadbanding* approach, which is similar to pay grades. Another option might include variable pay.
- There are several motivational theories in regard to pay. First, the *equity theory* says that people will evaluate their own satisfaction with their compensation by comparing it to others' compensation. The *expectancy theory* says people will put in only as much work as they expect to receive in rewards. Finally, the *reinforcement theory* says that if high performance is followed by a reward, high performance is likely to happen in the future.
- Other pay considerations include the size of the organization, whether the company is global, and the level of communication and employee involvement in compensation. HR managers should always be aware of what others are paying in the industry by performing market surveys.
- There are several laws pertaining to pay. Of course, the Equal Employment Opportunity Commission (EEOC) ensures that pay is fair for all and does not discriminate. The *Fair Labor Standards Act (FLSA)* sets a minimum wage and establishes standards for child labor. The *Federal Unemployment Tax Act (FUTA)* requires employers to pay unemployment taxes on employees. The *Federal Employees Compensation Act (FECA)* ensures that federal employees receive certain benefits.
- Besides salary, one of the biggest expenses for compensation is medical benefits. These can include health benefits, vision, dental, and disability benefits.
- The *Consolidated Omnibus Budget Reconciliation Act (COBRA)* was enacted to allow employees to continue their health insurance coverage, even if they leave their job.
- There are three main types of health-care plans. A fee-based plan allows the insured to see any doctor and submit reimbursement after a visit. An HMO plan restricts employees to certain doctors and facilities and may require a copayment and/or deductibles. A PPO plan is similar to the HMO but allows for more flexibility in which providers the employee can see.
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- Social Security and unemployment insurance are both required by federal law. Both are paid as a percentage of income by the employee and employer.
- Depending on the state, workers' compensation might be a requirement. A percentage is paid on behalf of the employee in case he or she is hurt on the job.
- Paid time off, or PTO, can come in the form of holidays, vacation time, and sick leave. Usually, employees earn more days as they stay with the company.
- Communication with employees is key to a successful benefits strategy. This includes communication before implementing the plan as well as communication about the plan.

### Summary

The author provides a video summary of the chapter.



View the video online at: <http://app.wistia.com/embed/medias/6451514c07>

## Chapter Case

### PTO: Too Little or Too Much?

You just finished analyzing information for the current compensation and benefits program. You find that some changes should be made, as the majority of employees (you have 120 employees) are not happy with what is being offered. In fact, the plan had not been revised in over fifteen years, making it dated and definitely ready for some changes.

One of the major points of contention is the PTO the organization offers. Employees feel the current system of sick time and vacation time offers too few options. For example, one employee says, "I often come to work sick, so I can still have my vacation time for my vacation." Another employee says, "I have given nine years to this organization, but I receive only three days more than someone who has just started." Here is the current PTO offering:

1+ year	7 days
5+years	10 days
10+ years	14 days

1. What cost considerations would you take into account when revising this part of your compensation plan?
2. What other considerations would you take into account when developing a new PTO plan?
3. Propose a new plan and estimate the cost of your plan on an Excel spreadsheet. Be prepared to present to the board of directors.

## Team Activity

1. Work in teams of four or five. Assume your organization is expanding and wants to open a sales office overseas. What compensation factors would be a concern? Brainstorm a list and be prepared to present to the rest of the class.
2. Go to <http://www.bls.gov/oco/> and review the information on the Occupational Outlook Handbook in teams of three. Pick three different jobs under the management category and record their average salary. Discuss reasons for the pay difference between the jobs you choose.

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