

## Human Resource Management

### *Introduction to Employee Compensation and Benefits*

### *Business Management & Administration*

## Lesson Plan

### Performance Objective

- Upon completion of this lesson, the student will develop an understanding of how organizations implement a compensation plan.

### Specific Objectives

- Students will be able to describe the goals of a compensation plan.
- Students will be able to develop a compensation package.
- Students will be able to summarize the types of pay systems.

### Terms

- Compensation– compensation is the total amount of the monetary and non-monetary pay provided to an employee by an employer in return for work performed as required by the organization.
- Benefits– benefits refers to compensation other than an hourly wage or salary.
- Job Ranking System– the simplest method that includes job titles being listed and ranked in order of importance to the organization.
- Paired comparison– individual jobs are compared with every other job based on a ranking system and an overall score is given for each job. This determines the highest-valued job and the lowest-valued job.
- Job classification– 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.
- Point factor system– the value of a job is determined by the number of points assigned to it. The points given to a specific job are called compensable factors.
- Skill-based pay– salary levels are based on the employee’s skills as opposed to the job title.
- Competency-based pay– the competency based approach looks at the employee’s traits or characteristics as opposed to a specific skills set.
- Broadbanding– similar to a pay grade system, except all jobs in a particular category are assigned a specific pay category.
- Variable pay– this system provides employees with a pay basis, but links the attainment of certain goals or achievements directly to their pay, comparable to a commission, bonus etc.

### Time

When taught as written, this lesson should take approximately 55-65 minutes to teach.

## Preparation

## TEKS Correlations

This lesson, as published, correlates to the following TEKS. Any changes/alterations to the activities may result in the elimination of any or all of the TEKS listed.

- **130.119 (c) Knowledge and Skills**

- (7) The student describes how to implement a compensation program. The student is expected to:
- (A) interpret the basis of compensation and how it meets with organizational objectives; and
  - (B) explain the factors that influence the pay and benefits system.

## Interdisciplinary Correlations

### English-English I

- 110.31 (b) Knowledge and Skills
  - (1) Reading/Vocabulary Development. Students understand new vocabulary and use it when reading and writing.
  - (11) Reading/Comprehension of informational text/procedural texts. Students understand how to glean and use information in procedural texts and documents.

## Occupational Correlation (O\*Net – [www.onetonline.org/](http://www.onetonline.org/))

**Job Title:** Compensation and Benefits Manager

**O\*Net Number:** 11.3111.00

**Reported Job Titles:** Benefits Manager, Compensation Manager, Human Resources Director

## Tasks

- Design, evaluate and modify benefits policies to ensure that programs are current, competitive and in compliance with legal requirements.
- Analyze compensation policies, government regulations, and prevailing wage rates to develop competitive compensation plan.
- Fulfill all reporting requirements of all relevant government rules and regulations, including the Employee Retirement Income Security Act (ERISA).

**Soft Skills:** Active Listening, Reading Comprehension, Speaking

## Accommodations for Learning Differences

It is important that lessons accommodate the needs of every learner. These lessons may be modified to accommodate your students with learning differences by referring to the files found on the Special Populations page of this website.

## Preparation

- Presentation software
- Internet
- HRM Assignment 1 – Case Study: [Thinking Beyond Pay to Keep Your Star Employees](#)
- Rubric for HRM Assignment 1 – Case Study

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## References

- Rees, G., & French, R. (2010). *Leading, managing and developing people* (3rd ed.). London, England: Chartered Institute of Personnel & Development
- <http://www.hrmguide.co.uk>
- [http://www.cipd.co.uk/NR/rdonlyres/01F95685-76C9-4C96-B291-3D5CD4DE1BE5/0/9781843982579\\_sc.pdf](http://www.cipd.co.uk/NR/rdonlyres/01F95685-76C9-4C96-B291-3D5CD4DE1BE5/0/9781843982579_sc.pdf)
- [http://www.shrm.org/Education/hreducation/Documents/09-0152%20Gusdorf\\_Instructor\\_Notes.pdf](http://www.shrm.org/Education/hreducation/Documents/09-0152%20Gusdorf_Instructor_Notes.pdf)

## Instructional Aids

- “Training and Development” Presentation software
- Internet
- HRM Training and Development Assignment 1 – Case Study: [\*A Sweet Employee Performance Appraisal System for Jellybelly\*](#)
- Rubric for HRM Training and Development Assignment 1 – Case Study

## Introduction

1. Ask students to go to <http://www.bls.gov/oco/> and review the information on the Occupational Outlook Handbook.
2. Ask them to pick three different jobs under the management category and record their average annual salary.
3. Ask volunteers to state some of their choices and discuss reasons for the pay difference between the jobs they chose.

# Outline

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## Outline

## Instructor Notes



### I. Compensation

A complete compensation package can include pay, health-care benefits, and other benefits, such as 401(k) plans.

Compensation is a serious consideration during recruitment and selection.

Organization base compensation depends on the kind of job.










A compensation plan has the following goals:

- A. The package should be good enough to attract the best people for the job.
- B. It also needs to stay competitive enough to motivate employees to stay with the organization. It's not the only component in motivating people to stay, but it is certainly a key component.
- C. Compensation can be used to increase morale, motivation, and satisfaction among employees.

A compensation package is an important part of the overall strategic HRM plan—especially since much of the company budget is for employee compensation.

Ask students to go online and look for their ideal jobs and related salary information. Ask them to look at the median salary for the job they are researching. Ask them to think about the lowest salary they will be willing to accept for that job. Ask them if that would motivate their satisfaction with the job.

### Multiple Intelligences Guide

 Existentialist	 Interpersonal	 Intrapersonal	 Kinesthetic/Bodily	 Logical/Mathematical	 Musical/Rhythmic	 Naturalist	 Verbal/Linguistic	 Visual/Spatial
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II. Developing a compensation package-  
The development of a compensation plan includes many considerations – it needs to assist in the development of a compensation strategy that meets the goals of the organization, and also needs to be in line with the organization’s strategic plan.










There are internal and external pay factors that determine compensation. One major internal factor is the compensation strategy the organization has decided to use.

- A. A market compensation policy is to pay the going rate for a particular job—basically, one that pays similarly to what the market offers.
- B. A market plus philosophy is a compensation policy that determines the going rate and adds a percentage to the market rate, so pay is higher than the market.
- C. A market minus philosophy is a compensation policy that determines the going rate and subtracts a particular percentage, so pay is less than the market.

Ask students to look up organizations like Southwest Airlines, Whole Foods, SAS, and Google to determine and analyze their pay policies.

Discuss the differences and what they can be attributed to.

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Other internal pay factors include the employer’s ability to pay, the type of industry, and the value of the employee and the particular job to the organization.

One of the major external pay factors is the current economic state. To add to it, inflation and cost of living in an area also determine compensation in the market.










III. Once a compensation strategy is based on internal and external factors, an organization needs to evaluate jobs and develop a pay system.

The value of a job is a major factor when determining pay. This can be determined through job evaluation. A job evaluation is a formal approach to analyzing jobs and categorizing them in regard to their relative worth in an organization to determine pay structure. There are different ways of performing a job evaluation:

A. Job ranking system– the simplest method, which includes job titles being listed and ranked in order of importance to the organization.

Give students examples of job evaluation in more simplistic settings. Help them understand how it works in smaller organizations versus larger organization—in multinationals versus nonprofits., etc.

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


- B. Paired comparison– individual jobs are compared with every other job based on a ranking system and an overall score is given for each job. This determines the highest-valued job and the lowest-valued job.
  - C. Job classification– 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.
  - D. Point factor system– the value of a job is determined by the number of points assigned to it. The points given to a specific job are called compensable factors.
- IV. Pay Systems
- Once a job evaluation is performed, the next step is called pay grading. It is the process of setting the pay scale for specific jobs or types of jobs.

The first method to pay grade is to develop a variety of pay grade levels. Each job is assigned a pay grade. When employees receive raises, it stays within their individual pay grade unless they receive a promotion that leads to a higher pay grade.

Ask students which considerations are important in developing a pay system. Ask them if it would differ from industry to industry and within industries as well.

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
Some organizations use the delayering and banding process, which offers more flexibility in that there are fewer pay grades, called bands.

Another variation to the pay grade is the 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.

In addition to pay level models, other options include:

- A. Skill-based pay– salary levels are based on the employee’s skills as opposed to the job title.
  - B. Competency-based pay– the competency based approach looks at the employee’s traits or characteristics as opposed to a specific skills set.
  - C. Broadbanding– it is similar to a pay grade system, except all jobs in a particular category are assigned a specific pay category.
- Variable pay– this system provides employees with a pay basis, but links the attainment of certain goals or achievements directly to their pay, comparable to a commission, bonus etc.

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## Application

Using the presentation, the teacher will explain performance management and evaluation. Discuss what performance management and evaluation are and their significance.

HRM Assignment 1 – Case study: Ask students to read the case study and answer the questions.

Link: [Thinking Beyond Pay to Keep Your Star Employees](#)

## Summary

### Review

- A compensation package is an important part of the overall strategic HRM plan, since a significant part 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 benefits.
- Compensation is used to attract people to work for the organization as well as to motivate employees to work.
- Several types of pay systems can be implemented.

## Evaluation

### Informal Assessment

1. Instructor will observe students during Independent Practice.
2. Instructor will assist students as needed.

### Formal Assessment

Use the assigned rubric to evaluate the projects assigned for Independent Practice.

## Enrichment

### Extension

Challenge your students to review this case study on compensation and present to the class.

Link: [Columbus Custom Carpentry: a Compensation Case Study](#)

## HRM – Employee Compensation and Benefits Independent Practice Assignment #1

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Consider that you own your own company that cannot pay the highest wages in the field. Answer the following questions with complete paragraphs.

1. What are the problems with not paying the highest wages?
2. List three ways you would retain employees.
3. Define “meaningful” work.

NAME: \_\_\_\_\_

<b>Criterion</b>	<b>A-level qualities (20)</b>	<b>B-level qualities (15)</b>	<b>C-level qualities (10)</b>	<b>F-level qualities (5)</b>	<b>Score</b>
<b>Completeness</b>	Complete in all respects; reflects all requirements.	Complete in most respects; reflects most requirements.	Incomplete in many respects; reflects few requirements.	Incomplete in most respects; does not reflect requirements.	
<b>Writing mechanics</b>	Writing demonstrates a sophisticated clarity, conciseness, and correctness; includes thorough details and relevant data and information; extremely well-organized.	Writing is accomplished in terms of clarity and conciseness and contains only a few errors; includes sufficient details and relevant data and information; well-organized.	Writing lacks clarity or conciseness and contains numerous errors; gives insufficient detail and relevant data and information; lacks organization.	Writing is unfocused, rambling, or contains serious errors; lacks detail and relevant data and information; poorly organized.	
<b>Total:</b>					