Course Learning Outcomes for Unit I

Upon completion of this unit, students should be able to:

1. Discuss the role of employees, employers, unions, and the government in the development of compensation programs.
   1.1 Describe issues that influence an individual’s decision to apply for or accept a specific job.
   1.2 Explain how compensation plans can influence the success of an organization.
   1.3 Explore how influences outside an organization can affect its compensation plan.

2. Assess the impact of the Civil Rights Act of 1964, the Bennett Amendment, and Executive Order 11246 on compensation practices.
   2.1 Outline the provisions of the Civil Rights Act of 1964, the Bennett Amendment, and Executive Order 11246.
   2.2 Establish the reasons why the Civil Rights Act of 1964, the Bennett Amendment, and Executive Order 11246 were implemented.

<table>
<thead>
<tr>
<th>Course/Unit Learning Outcomes</th>
<th>Learning Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Unit I Essay</td>
</tr>
<tr>
<td>1.2</td>
<td>Unit I Essay</td>
</tr>
<tr>
<td>1.3</td>
<td>Unit I Essay</td>
</tr>
<tr>
<td>2.1</td>
<td>Unit I Essay</td>
</tr>
<tr>
<td>2.2</td>
<td>Unit I Essay</td>
</tr>
</tbody>
</table>

Reading Assignment

Chapter 1:
Strategic Compensation: A Component of Human Resource Systems

Chapter 2:
Contextual Influences on Compensation Practice

Unit Lesson

Hello, and welcome to this course. This course is an introduction to the area of compensation management. This course looks at how compensation is developed, evaluated, and managed within an organization. You will examine different theories of compensation management, why employees and non-employees are paid, the manner in which they are paid, and different types of pay programs.

This course will be broken down into six different parts, which include strategic compensation, bases for pay, designing compensation systems, employee benefits, compensation challenges, and compensation issues around the world. When studying bases for pay, you will look at the traditional bases of pay, which include merit pay, seniority pay, incentive pay, and person-focused pay. You will review pay systems that recognize employee contributions, are internally consistent, and are competitive within the market. When reviewing employee benefits, you will review both discretionary benefits and legally required benefits. Compensation challenges will include the controversy surrounding executive compensation in the United States and paying contingent or flexible employees. Finally, you will address compensation systems around the world and
compensating expatriates. As you can see, a wide array of compensation issues are present in today's workforce.

In this unit, we will concentrate on strategic compensation and some influences on compensation. So, what do you think of when you hear the words compensation and strategic compensation? Most people think of compensation as their pay and benefits, which is basically correct. The jobs we accept are often decided on issues related to compensation. Does the pay meet your needs? Is it enough to support your basic financial needs, and does the job have benefits that you are interested in? Everyone has a basic financial threshold they feel must be met in order to accept a job. For example, when you start your first job at 16 to 18 years of age, you might be happy with minimum wage. For teenagers starting out about 20 years ago, that rate was closer to $5 an hour. For someone at age 16 and still in school, that was a lot of money back then. However, after you obtain a degree and/or some experience, you might decide that your basic financial threshold is higher. Maybe $15 an hour is not enough, and you need $20-$25 an hour to support your needs and your family. Compensation and benefits are then large deciding factors when choosing employment. Organizations recognize this and develop strategies to attract and retain employees based on what potential employees need and want as well as what compensation and benefit packages the competition is offering.

Compensation is viewed as more than money earned but also as a total package or total reward. The benefits that make up your compensation are also considered. Many people also look at the options that are beneficial to their families, such as healthcare. For example, a newly married couple may find health insurance important because they want to start a family. As people mature, benefits such as health insurance and retirement plans become more important deciding factors in employment options. For example, to a person who is 40 years old, retirement options may become an important deciding factor in his or her employment decision. Who offers the best retirement plan may become a more important deciding factor than health insurance or basic pay rate. Compensation decisions are different for everyone, and competitive organizations understand this.

In addition to traditional benefits, such as health insurance and dental and vision care, many organizations are now looking into voluntary benefits in order to attract and retain highly qualified employees. Voluntary benefits are benefits that that are either paid by the employee or partially paid by the employer to improve the employee’s well-being. Voluntary benefits include benefits such as financial well-being programs, pet insurance, legal assistance, life-coaching services, or identification theft protection. Voluntary benefits are typically derived from employee satisfaction survey results and comparative research by the compensation specialists within the organization. You will learn more about different types of benefits as we go through the course.

Compensation in the workplace often influences the type of employees in the workplace and the competitiveness of the organization. For example, a compensation plan is tailored to attract the right employees for the organization’s goals and objectives. Once the employees are obtained, an organization needs to develop a compensation plan that retains those employees. Failure to offer compensation and benefits that retain employees can result in expensive turnover costs. This is where strategic compensation comes into play. Strategic compensation plans align with the organization’s overall strategic plan.

As you may recall from previous courses, a strategic plan is an organization’s strategy for the future. The strategic plan outlines an organization’s priorities for the future and the organization’s plan on how to reach those priorities to create a competitive advantage. Each department within an organization also has a strategic plan relative to that department. Each departmental strategic plan is aligned with the organization’s overall strategic plan. Since compensation is a function within the human resources (HR) department or HR function, strategic compensation is then the compensation strategy used to support the priorities of HR while creating a competitive advantage within an organization. The organization works strategically, department-by-department, to be the best organization in its industry.

When it comes to compensation, the strategic plan establishes the compensation system needed to ensure the right people are hired and retained to support the needs of the organization. Compensation specialists are responsible for the development, implementation, and evaluation of compensation systems (pay and benefits) that meet the current and future needs of the organization. As you will learn in this course, there are various methods or compensation systems that can be used to properly compensate employees or non-employees (contractors) within an organization. Both employees and non-employees are essential to meeting the overall goals and objectives of the organization, and they are paid differently.
Many of the decisions related to compensation concern the business strategies within the organization. Compensation specialists need to match the compensation systems or strategies with the overall business strategies if the business wants to develop a competitive advantage. As we will see throughout this course, it is the alignment of compensation strategies with the organization’s business strategies that distinguishes the successful organizations from the unsuccessful organizations. An organization that is an innovator and leader in the field will tend to offer higher wages and more comprehensive benefit packages than a more traditional organization that has an established workforce. For example, Microsoft offers higher wages and a more comprehensive benefit package than Ford Motor Company. Business strategies influence compensation strategies.

Compensation and compensation strategies are complicated. Whether we are talking about the minimum wage increases or CEO pay, each decision must be considered with caution and data to support the decision. For example, while it is good to increase minimum wage to create an acceptable standard of living in the United States, the decision to increase entry-level wages has the potential to create pay compression concerns within the rest of the workforce. Additionally, the more experienced workforce is likely to suffer from morale and productivity issues if their pay is not also increased proportionally. Internal and external factors should be reviewed to determine the best compensation strategy for the organization.

As the world changes, organizations and strategies within those organizations change as well. Influences outside the organization (e.g., the government, the economy, unions, labor laws) also affect an organization’s strategy. Compensation is one part of the organization’s overall strategy that we will focus our attention on during this course.

In the next unit, you will start to look at various bases of pay, different types of pay, and various labor laws that affect compensation and benefits within an organization.

**Learning Activities (Non-Graded)**

Non-Graded Learning Activities are provided to aid students in their course of study. You do not have to submit them. If you have questions, contact your instructor for further guidance and information.

Each chapter of your textbook contains a case study related to the main theory or concept within the chapter. Review the case studies to gain a better understanding of the course materials as they relate to compensation considerations. Feel free to discuss the chapter case studies with your classmates in the Student Break Room forum.