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# Strategic Compensation

## *A Human Resource Management Approach*

EIGHTH EDITION

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Sports benefits from having cross-trained employees because they are more capable of meeting its production schedules.

Person-focused pay programs that emphasize vertical skills work well at manufacturing companies that organize work flow around high-performance work teams in which employees are expected to learn both functional and managerial tasks (e.g., work scheduling, budgeting, and quality control). This means that groups of employees work together to assemble entire products such as cellular telephones (Motorola) and furniture (Steelcase, a manufacturer of office furniture), and each team member learns how to perform the jobs of other team members.

Companies increasingly recognize the importance of using person-focused pay. Person-focused pay programs have been adopted most widely in service and manufacturing industries. Companies have more recently been striving to adopt person-focused pay programs for professional employees. Person-focused pay programs also represent a prevalent basis for pay among clerical and skilled trade employees (e.g., carpenters and electricians).

## REASONS TO ADOPT PERSON-FOCUSED PAY PROGRAMS

Person-focused pay programs represent important innovations in the compensation field. Person-focused pay systems imply that employees must move away from viewing pay as an entitlement. Instead, these systems treat compensation as a reward earned for acquiring and implementing job-relevant knowledge and skills. Advocates of person-focused pay programs offer two key reasons that firms seeking competitive advantage should adopt this form of compensation: technological innovation and increased global competition.<sup>8</sup>

### Technological Innovation

In an age of technological innovation in which robots, telecommunications, artificial intelligence, software, and lasers perform routine tasks, some skills have become obsolete.<sup>9</sup> Jobs therefore require new and different worker skills. The skills needed by automobile mechanics, for instance, have changed dramatically. Competent automobile mechanics previously were adept at manually assembling and disassembling carburetors. Since then, electronic fuel injection systems, which are regulated by onboard computers, have replaced carburetors, necessitating that auto mechanics possess different kinds of skills. Auto mechanics specifically must now be able to use computerized diagnostic systems to assess the functioning of fuel injectors.

As technology leads to the automation of more tasks, employers combine jobs and confer broader responsibilities on workers. For example, the technology of advanced automated manufacturing (e.g., in the automobile industry) has required some employees to begin doing the jobs of other employees, including the laborer, the materials handler, the operator-assembler, and the maintenance person. A single employee now performs all of these tasks in a position called “manufacturing technician.” The expanding range of tasks and responsibilities in this job demands higher levels of reading, writing, and computation skills than did its predecessor, which required strong eye–hand coordination. Most employees must possess better reading skills than before because they must be able to read the operating manuals and, when problems arise, the troubleshooting manuals of automated manufacturing equipment based on computer technology. The design of manufacturing equipment previously was relatively simple and easy to operate, based on such simple mechanical principles as pulleys.

These technological changes have fostered increased autonomy and team-oriented workplaces, which also demand different job-related skills than employees needed previously.<sup>10</sup> The manufacturing technician’s job is generally more autonomous than was his or her predecessor’s. Thus, technicians must be able to manage themselves and their time.

Employers now rely on working teams’ technical and interpersonal skills to drive efficiency and improve quality. Today’s consumers often expect customized products and applications, and employees must have sufficient technical skill to tailor products and services to customers’



needs, as well as the interpersonal skills necessary to determine client needs and handle customer service.<sup>11</sup> Telephone service providers such as AT&T and Verizon seek competitive advantage by serving clients' present needs as well as by anticipating possible changes in customers' service needs. Lower costs of cellular phone service, with the inclusion of domestic long-distance service, create an even stronger imperative for landline service providers to be as responsive as possible to market needs and preferences. As a result, these companies offer programs to provide clients the most favorable long-distance telephone rates based on their particular calling patterns. To be successful, these companies must have customer service associates who maintain current knowledge of these programs as well as the skills needed to match service plans to clients' long-distance service requirements.

### Increased Global Competition

Increased global competition has forced companies in the United States to become more productive. Now more than ever, to sustain competitive advantage, companies must provide their employees with leading-edge skills and encourage employees to apply their skills proficiently. Evidence clearly shows that the foreign workers are better skilled and able to work more productively than U.S. employees in at least two ways.

First, employers in both the European Common Market and some Pacific Rim economies emphasize learning. In both cases, employers use classes and instruction as proactive tools for responding to strategic change. In Ireland, the private sector offers graduate employment programs to employees in such skill areas as science, marketing, and technology.<sup>12</sup> An example of a marketing skill is the application of inferential statistics to a market analysis. Marketing professionals use inferential statistics to draw conclusions about whether the level of satisfaction with Brand A athletic shoes among a small sample of Brand A athletic shoe owners represents the level of satisfaction among every person who has purchased Brand A athletic shoes.

Second, both Western European and some Pacific Rim cultures provide better academic preparation and continuing workplace instruction for the non-college-bound portions of their workforces. Although the United States is well regarded for the quality of education its colleges and universities provide to such skilled professionals as engineers, the Europeans are much better at educating the "vocational" segment of their workforces. Western European workplaces emphasize applied rather than theoretical instruction for vocational employees. The European apprenticeship structure mixes academic and applied learning both in "high schools" and in continuing education for employees.

Companies strive to market the highest quality of products and services in the face of increased global competition and the availability of new technology. To establish and maintain competitive advantage, companies should carefully consider person-focused pay systems. As discussed earlier, many companies already compensate employees on this basis because they have discovered the advantages of such plans. Of course, as companies consider adopting these pay systems, they must tailor compensation programs to the particular kinds of skills they wish to foster. Human resource professionals can guide employee development through a variety of person-focused pay systems.

Training lies at the heart of person-focused pay programs. Indeed, as technological advances occur at a breakneck pace and as competition among companies intensifies, companies must make a number of decisions, including whether to develop talent internally or to hire talent away from competitors.

In manufacturing settings within the United States, many employers struggle to find sufficiently higher-skilled workers, notwithstanding the persistently high unemployment rate. According to GE CEO Jeffrey Immelt, he believes that manufacturing workers should possess the following:

**Computing ability:** Everyone needs to be able to interact with digital equipment and link that ability to a classic trade like welding that's increasingly tied to computing. "It's going to be more multi-faceted," he said. Emerging areas such as 3-D printing are "game-changing

technology. It's going to be done in a manufacturing setting, but it's going to have to be by people that are facile in both ends of that. But it can be done."

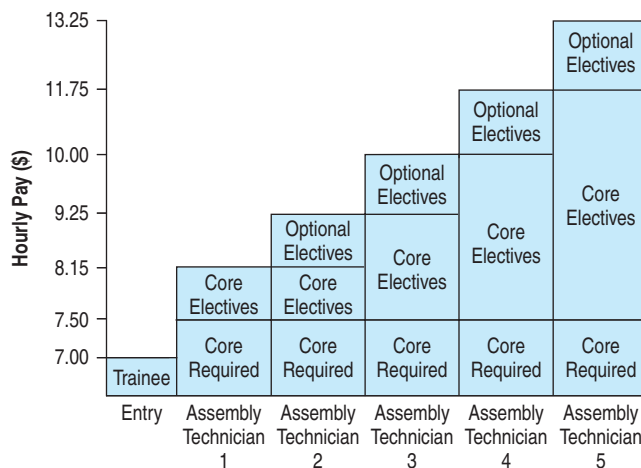
**Trained up:** Even with those classic skills and computing skills together, workers still need hands-on training to meet manufacturers' needs. Community colleges can help through apprenticeship programs. "In every GE town we have a direct linkage to the community college in town," Immelt said.

**Team skills:** Factory workers today must operate as a group more than ever. "A lot of our facilities are lean manufacturing plus teaming," Immelt said. One GE location in Durham, NC, has 400 hourly workers but just one manager. "It's a completely teaming facility and they're quite productive."<sup>13</sup>

## VARIETIES OF PERSON-FOCUSED PAY PROGRAMS

A **stair-step model** actually resembles a flight of stairs, much like the arrangement illustrated in Figure 5-1 for an assembly technician. The steps represent jobs from a particular job family that differ in terms of complexity. Jobs that require more skills are more complex than jobs with fewer skills. For example, an Assembly Technician 1 job requires employees to possess two skills: line restocking and pallet breakdown. An Assembly Technician 3 job requires employees to possess six skills: line restocking, pallet breakdown, burr removal, line jockey, major assembly, and soldering. In terms of the stairs, higher steps represent jobs that require more skills than lower steps. Compensation specialists develop separate stair-step models for individual job families (e.g., clerks or accountants). Thus, a company may have more than one stair-step model, each corresponding to a particular job family such as accounting, finance, or clerical. No stair-step model should include both clerical workers and skilled trade workers (e.g., carpenters, electricians, and plumbers).

How do employees earn increases in hourly pay based on a stair-step model? Using the model in Figure 5-1, Howard Jones wants to become an assembly technician. ABC Manufacturing Company hires Howard as an assembly technician trainee at \$8 per hour. Howard starts by completing three core workshops designed for Assembly Technician 1: a company orientation, a safety workshop, and a quality workshop. After successfully completing all three courses, based on earning greater than the minimum scores on tests for each subject, he receives a \$0.50 per hour pay increase, making his total hourly pay \$8.50. In addition, Howard completes the core electives designated for his Assembly Technician 1 job: He learns how to restock lines and break down pallets.



**FIGURE 5-1** A Stair-Step Model at ABC Company

Core Required	
Employees must complete all three workshops.	
1. Orientation Workshop: The goal of this workshop is to familiarize employees with ABC's pay schedule, offerings of employee benefits, work hours, holiday and vacation policies, and grievance procedures.	
2. Safety Workshop: The goal of this workshop is to educate employees about the procedures for ensuring the health and safety of themselves and coworkers while using and being around the machinery.	
3. Quality Workshop: The goal of this workshop is to acquaint employees with ABC's procedures for maintaining quality standards for parts assembly.	
Core Electives	
Employees must complete all core elective courses for the designated job before they assume the commensurate duties and responsibilities.	
Assembly Technician 1:	a. Line restocking b. Pallet breakdown
Assembly Technician 2:	a. Core electives for Assembly Technician 1 b. Burr removal c. Line jockey
Assembly Technician 3:	a. Core electives for Assembly Technician 2 b. Major assembly c. Soldering
Assembly Technician 4:	a. Core electives for Assembly Technician 3 b. Acid bath c. Final inspection
Assembly Technician 5:	a. Core electives for Assembly Technician 4 b. Equipment calibration c. Training
Optional Electives	
Employees may choose to complete up to two optional electives at each step.	
Administrative procedures	
Public relations	
Group facilitation	
Grievance resolution	
Training	
Marketing fundamentals (basic)	
Marketing fundamentals (intermediate)	
Finance fundamentals (basic)	
Finance fundamentals (intermediate)	
Accounting fundamentals (basic)	
Accounting fundamentals (intermediate)	
Human resource management fundamentals (basic)	
Human resource management fundamentals (intermediate)	

**FIGURE 5-1** Continued

Upon successfully completing both courses, he receives a \$0.65 per hour pay raise, making his total hourly pay \$9.15 and earning him the Assembly Technician 1 title. Howard may continue to learn more skills for an assembly technician by completing the curriculum for the Assembly 2 level. If he chooses so thereafter, Howard can complete the curricula to move to Level 3.

Training courses may be offered in-house by the company, at a local vocational school, or at a local community college or 4-year university. Companies usually offer specialized courses

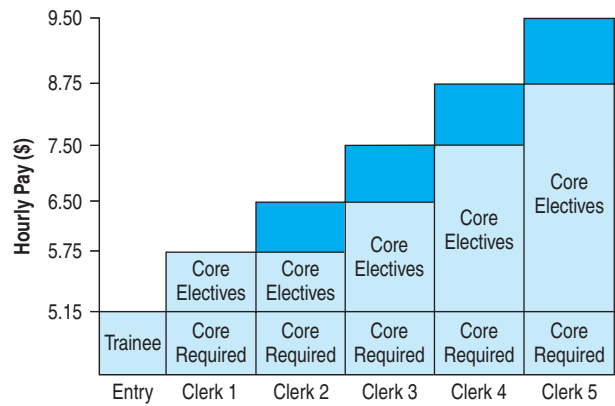
in-house for skills that pertain to highly specialized work or to work that bears on a company's competitive advantage. Federal Express sponsors customer service training internally because the skills and knowledge required to be an effective Federal Express customer service employee distinguish its service from other express mail companies, including United Parcel Service (UPS). For more common skills or skills that do not have an effect on competitive advantage, companies typically arrange to have their employees take training courses offered by such external agents as community colleges. Most companies require clerical employees to be able to use word processing programs effectively. Thus, companies commonly sponsor their employees' training in word processing at local community colleges.

The **skill blocks model** also applies to jobs from within the same job family. Just as in the stair-step model, employees progress to increasingly complex jobs; however, in a skill blocks program, skills do not necessarily build on each other. Thus, an employee may progress two or more steps, earning the pay that corresponds with each step. Although similar, the stair-step model and the skill blocks model differ in an important way. The stair-step model addresses the development of knowledge or skills depth. In particular, Howard Jones could develop his skills depth as an assembly technician by taking the five separate curricula. With the successful completion of each curriculum, Howard will enhance the depth of his skills as an assembly technician. As we will see shortly, the skill blocks model emphasizes both horizontal and vertical skills.

As shown in Figure 5-2, Pro Company hired Bobby Smith as a Clerk 1 because her employment tests demonstrated her proficiency in the skills and knowledge that she needs for this level job. These required skills correspond to Clerk 1 core requirements (i.e., filing, typing, and possessing a working knowledge of one word processing program). Moreover, Bobby knows transcription and shorthand, which are Level 1 core electives. During employee orientation for new clerical hires, an HR representative explained the pay-for-knowledge pay program available to this employee group. In particular, Bobby knows that she can advance to any level in the clerical pay structure by successfully completing the corresponding curriculum. To make her goal of becoming a Clerk 4, Bobby simply needs to complete the Level 4 curriculum. She need not take the curricula for the Clerk 2 and Clerk 3 jobs. Taking the Clerk 2, 3, or 4 curricula will enhance Bobby's horizontal skills. The Clerk 3 curriculum provides the knowledge required to successfully manage different types of ledgers. Taking the Clerk 5 curriculum will increase Bobby's vertical skills, including project scheduling and assigning personnel to projects.

A **job-point accrual model** encourages employees to develop skills and learn to perform jobs from different job families. A company would benefit if its employees were proficient in a small subset of jobs. Employees are generally not free to learn as many jobs as they would like. Companies limit the number of jobs employees are allowed to learn in order to avoid having them become "jacks of all trades." Job-point accrual methods create organizational flexibility and promote company goals by assigning a relatively greater number of points to skills that address key company concerns (e.g., customer relations). The more points employees accrue, the higher their core compensation level will be.

For example, let's assume that ZIP-MAIL is a new company that competes in express mail delivery service against established firms in the business (e.g., Federal Express and UPS). ZIP-MAIL couriers must meet their delivery promise of 7:30 A.M., which is at least a half-hour earlier than some of the competitors. They must also convey a professional image and establish rapport with corporate clients to encourage individuals and representatives from client companies to choose ZIP-MAIL over other competitors. In other words, customer relations skills are essential to ZIP-MAIL's success. ZIP-MAIL stands to benefit from a person-focused pay program, particularly one that follows the job-point accrual model. Under this system, employees who successfully complete customer relations training courses would earn more points than they would earn by taking other kinds of training offered by ZIP-MAIL, creating an incentive for employees to learn customer relations skills over other kinds of skills.



**Core Required**

All employees must be proficient in all of the following skills or take the necessary courses that are offered by Pro Company in order to become proficient.

- Principles of filing
- Typing skill, 40 words per minute minimum speed
- Working knowledge of one word processing program such as Word or WordPerfect

**Core Electives**

Employees must complete all core elective courses for the designated job before they assume the commensurate duties and responsibilities.

- Clerk 1:
  - a. Transcription
  - b. Shorthand
- Clerk 2:
  - a. Maintaining office supplies inventory
  - b. Ordering office supplies from local vendor
- Clerk 3:
  - a. Accounts receivable ledgers
  - b. Accounts payable ledgers
  - c. Working knowledge of one spreadsheet program, for example, Lotus 1-2-3 or Excel
- Clerk 4:
  - a. Payroll records
  - b. Maintaining records of sick pay usage, vacation usage, and performance bonus awards based on company policy
- Clerk 5:
  - a. Project scheduling
  - b. Assigning personnel to projects

**Optional Electives**

- Employees may choose to complete up to two optional electives at each step.
- Public relations (basic, intermediate, advanced)
  - Supervisory skills
  - Resolving minor employee conflicts
  - Effective written communication skills (basic, intermediate, advanced)
  - Effective oral communication skills (basic, intermediate, advanced)

**FIGURE 5-2** A Skill Blocks Model at Pro Company