

MGT 4380 COMPENSATION MANAGEMENT CHAPTER 18 BUDGETS AND ADMINISTRATION

"Contract system" at turn of century similar to *outsourcing* - services and supplies from independent, external vendors.

Managing labor costs

- Head count
 - Core employees - full-time, long term
 - Contingent workforce - part-time, outsourced, overtime
- Hours
 - Non-exempt (FLSA applies) get overtime beyond 40 hours so more expensive wages but avoids additional benefits
 - Exempt receive no overtime, so OVERWORK!
 - Contingent better controlled
- Base pay is rolled forward and impacts benefits; variable pay is not rolled forward and does not usually impact benefits

Pay increases based on

- Average wage increase during current year
- Ability of company to pay
- Market competition (external)
- Turnover (*churn or slippage*) may result in replacement workers at lower wage/benefits
- Cost of living
 - Consumer Price Index - basket of goods may not reflect individual expenditures
 - Pay surveys/labor market
 - Employee's personal cost of living
 - Location

Approaches

- Top down: overall is determined and allocated down (SWT does this based on gross salaries by division) vs.
- Bottom up: managers develop for their own area but may need to be adjusted for equity

More complicated now due to

- More variable forms of pay, such as stock options
- Management of earnings through generally accepted accounting practices applications (Enron???)

Cost Controls

- Range maximums and minimums - red circle rate is above maximum; frozen until entire range shifts up
- Broadbanding to allow more flexibility
- Compa-ratio* - Average rates actually paid/range midpoint
 - >1 indicates employees paid above midpoint; exceed pay policy
 - < 1 indicates employees paid below midpoint; below pay policy
 - BUT may be other explanations such as turnover, seniority, performance, etc.
- Variable pay is not added to base; must be re-earned
- Analyzing costs - costing out proposals

Employees must believe pay is fair and participation/communication helps understanding.

Remember procedural justice is more important than distributive justice!

Structure of compensation function

- Centralization - design and administration in a single unit (at SWT, faculty and staff handled in different office) vs.
- Decentralization - each unit handles but advisory staff available
- Corporate guidelines but have flexibility
- Reengineering to ensure function directly contributes to objectives
- Outsourcing to save money vs. less responsiveness and control

Should managers "be free" to manage compensation within guidelines?