

Mgmt 450 Exam #3 Study Guide  
Chapters 11, 12, 13

**Chapter 11: Establishing a Pay Structure**

**Decisions about Pay**

- **Job structure:** the relative pay for different jobs within the organization
- **Pay level:** the average amount (including wages, salaries, and bonuses) the organization pays for a particular job
- **Pay structure:** the pay policy resulting from job structure and pay-level decisions

**Legal Requirements for Pay**

- **Equal Employment Opportunity**
  - Employers may not base differences in pay on an employee's age, sex, race, or other protected status
  - Provide equal pay for equal work
  - **Comparable worth:** policy that uses job evaluation to establish the worth of an organization's jobs in terms of such criteria as their difficulty and their importance to the organization
    - The employer then compares the evaluation points awarded to each job with the pay for each job, if jobs have the same number of evaluation points, they should be paid equally
- **Minimum Wage:** the lowest amount that employers may pay under the federal or state law, stated as an amount of pay per hour
  - **Fair Labor Standard Act (FLSA):** federal law that establishes a minimum wage and requirements for overtime pay and child labor
- **Overtime Pay**
  - Any time worked over 40 hours per week
  - **Exempt employees:** managers, outside sales people, and any other employees not covered by the FLSA requirement for overtime pay
  - **Nonexempt employees:** employees covered by the FLSA requirements for overtime pay
- **Child Labor**
  - Regulations for children workers under the age 18
  - May not be employed in hazardous occupations defined by the Department of Labor (aged 16 and 17)
  - Children aged 14 and 15 may work only outside school hours in jobs defined as non-hazardous and for limited time periods
- **Prevailing Wages**
  - Federal contractors must pay their employees at rates at least equal to the prevailing wages in the area
  - Based on 30% of the local labor workforce

**Economic Influences on Pay**

- **Product Markets**
  - Includes organizations that offer competing goods and services
    - Organizations competing to serve the same customers
    - Important influence on price is the cost to produce the goods or services for sale
- **Labor Markets**

- o Workers prefer to higher-paying jobs and avoid employers that offer less money for the same type of job
- o Competition for labor establishes the minimum an organization must pay to hire an employee for a particular job
- o An organization's competitors in labor markets typically include companies with similar products and companies in other industries that hire similar employees
- o **Cost of living:** the cost of a household's typical expenses, such as house payments, groceries, medical care, and gasoline, has influence on labor markets
- **Pay Level: Deciding What to Pay**
  - o Range within which organizations can make decisions
  - o Size of range depends on the details of the organization's competitive environment
    - If many workers competing for few jobs, employers will have more choice
    - Can choose to pay at, above, below the rate set by market forces
  - o Evaluate pay more as an investment more than a cost
- **Gathering Information about Market Pay**
  - o **Benchmarking:** a procedure in which an organization compares its own practices against those of successful competitors

#### Employee Judgments about Pay Fairness

- **Judging Fairness**
  - o Employees evaluate their pay relative to the pay of other employees
    - **Equity theory:** how people make judgments about fairness
- **Communicating Fairness**
  - o If an organization conducts research and determines they are paying its employees generously, they should share
  - o Employers must recognize that employees know much more about what other employers pay now than they did before the internet

#### Job Structure: Relative Value of Jobs

- **Job evaluation:** an administrative procedure for measuring the relative internal worth of the organization's jobs
  - o Committee identifies each job's **compensable factors:** the characteristics of a job that the organization values and chooses to pay for
  - o Jobs are rated for each factor
  - o The number of points often comes from one of the **point manuals** published by trade groups and management consultants
  - o **Key jobs:** the jobs that have relatively stable content and are common among many organizations
    - Pay for key jobs can be based on survey data, and pay for the organization's job structure, a job with a higher evaluation score than a particular key job would receive higher pay than that key job

#### Pay Structure: Putting It All Together

- **Hourly wage:** rate of pay for each hour worked
- **Piecework rate:** rate of pay for each unit produced
- **Salary:** rate of pay for each week, month, or year worked
- **Pay Rates**
  - o **Pay policy line:** a graphed line showing the mathematical relationship between job evaluation points and pay rate

- **Pay Grades:** sets of jobs having similar worth or content, grouped together to establish pay rates
- **Pay Range:** a set of possible pay rates defined by a minimum, maximum, and midpoint of pay for employees holding a particular job or a job within a particular pay grade
- **Pay Differentials:** adjustment to pay rate to reflect differences in working conditions or labor markets
- **Alternatives to Job-Based pay**
  - o **Delayering:** reducing the number of levels in the organization's job structure
  - o **Skill-based pay systems:** pay structures that set pay according to the employees' levels of skill or knowledge and what they are capable of doing

### **Pay Structure and Actual Pay**

- Usually the human resource department is responsible for establishing the organization's pay structure
- The structure represents the organization's policy, but what the organization actually does may be different
- HR department should compare actual pay to pay structure making sure that policies and practices match
- **Compa-ratio:** the ratio of average pay / the midpoint of the pay range
  - o Assuming that the pay structure is well planned to support the organization's goals, the compa-ratio should be close to 1

### **Current Issues Involving Pay Structure**

- **Pay During Military Duty**
  - o Uniformed Services Employment and Reemployment Rights Act (USERRA) requires employers to make jobs available to their workers when they return after fulfilling military duties for up to 5 years
  - o Some employers pay the difference between military and the civilians earnings for extended periods
- **Pay for Executives**
  - o CEO's and top executives receive very high pay
  - o Equity of executive pay can affect more employees than, equity among warehouse workers or salesclerks

## **Chapter 12: Recognizing Employee Contributions with Pay**

**Incentive Pay:** forms of pay linked to an employee's performance as an individual, group member, or organization member

- Pay specifically designed to energize, direct, or control employees behavior
- **Commission**
- **Bonuses**

### **Pay for Individual Performance**

- **Piecework Rates**
  - o **Piecework rate:** wage based on the amount workers produce
  - o **Straight piecework plan:** incentive pay which the employer pays the same rate per piece, no matter how much the worker produces
  - o **Differential piece rates:** incentive pay in which the piece rate is higher when a greater amount is produced (rising and falling differentials)
- **Standard Hour Plans**