

Department of Human Resource Management

# Compensation Practices



Only study guide for

# HRM2603

University of South Africa  
Pretoria

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**Please note**

Read this study guide (SG001) in conjunction with the *Study @ Unisa* brochure and Tutorial Letters **HRMALL6/301/4** and **HRM2603/101/3**.

I strongly recommend that you register for and use **myUnisa** regularly (see the *Study @ Unisa* brochure for details). This will give you direct access to important information and allow you to perform tasks such as updating your personal information, submitting assignments, confirming receipt of assignments, obtaining assignment marks, obtaining examination timetables and results, joining online discussion forums and many more.

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Dear HRM2603 student

Welcome to the exciting world of Compensation Practices (HRM2603). Please note that this module is offered online. This means that study material for this module will be available on myUnisa. It is thus very important that you register to use myUnisa and access the HRM2603 myUnisa module site regularly. Study material and other content on myUnisa can only be accessed if you have registered your myLife e-mail account. Keep your login and password details in a safe place, as you will have to access the site regularly. By accessing the HRM2603 module site, you will gain access to the workbooks (the study material), discussion forums where you can talk to fellow students and your lecturer, other additional resources, frequently asked questions, and relevant module-related information.

By now you should have received the *Study @ Unisa* brochure, which contains important information regarding your studies. This brochure is also available on myUnisa. The Directorate of Despatch should supply you with the following **printed tutorial matter** for this module when you register:

- ❖ two general tutorial letters: HRMALL6/301/4 and HRMONLI/301/4
- ❖ Tutorial Letter HRM2603/101/3 (which contains contact details for the lecturer, your assignment tasks and due dates, and other module-related information)
- ❖ this study guide: HRM2603/SG001/4

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It is important that you read this study guide thoroughly and then log on to the HRM2603 myUnisa module site and familiarise yourself with the site. Start by reading the home screen for further instructions on how to proceed with this module.

Please do not hesitate to contact me if you have any module-related queries. I hope that you enjoy this dynamic and stimulating module.

Best wishes

**Your Lecturer/s in Compensation Practices**  
**HRM2603**  
**DEPARTMENT OF HUMAN RESOURCE MANAGEMENT**  
**UNISA**



## Preface

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# 1 WELCOME

## WELCOME

Dear Student

It is a great pleasure to welcome you to this interesting online module (**Compensation Practices**). To make sure that you share my enthusiasm for this field of study, I urge you to read this preface carefully.

This preface contains introductory information for the HRM2603 module. It also contains module-specific information related to the tutorial matter for the module, the purpose and outcomes of the module, the characteristics of the module, the framework for the module, the resources available, the workbooks, the study plan, the HRM2603 myUnisa module site, how you will be assessed in this module, the icons used, and the success factors for the module. Refer back to this preface as often as you need to as it will certainly make studying this module a lot easier.

I recommend that you start studying as soon as possible, as this module is not only intensive but also comprehensive. By beginning with your studies early, you will be able to cover the module content in adequate time and submit your assignments by the required due dates.

I look forward to interacting with you on your HRM2603 journey.

I will do my best to help you succeed in your study of this module. You will be well on your way to success if you start studying early in the semester and resolve to do the assignments properly. Get ready for an interesting journey in the field of compensation practices.

I will use **workbooks** to direct you through the various sections of this module. Apart from the hard copy of the study guide, an electronic version is also available under the **Official Study Material** tool on the myUnisa website. Please visit the module site regularly to keep up to date with all the learning activities.

You will receive a number of tutorial letters during the year. Right from the start, I would like to point out that you must read **ALL the tutorial letters** that you receive during the semester immediately and **carefully**, as they always contain important and (sometimes) urgent information.

Feedback on the assignments will be provided a few weeks after the due date of each assignment in Tutorial Letter **201** (Assignment 01) and Tutorial Letter **202** (Assignment 02), and it will also be uploaded under the **Official Study Material** tool.

Do not hesitate to contact me by e-mail or to visit me in my office at Muckleneuk Campus in Pretoria. If you wish to visit me on campus, please remember to arrange an appointment beforehand (office hours are 08:00–16:00).

**My contact details are available in tutorial letter HRM2603/101/3.**

I trust that you will find the module contents stimulating and of practical value.

## 2 PURPOSE OF THE MODULE

### 2.1 Link to other modules

This module does not stand alone. It forms part of the whole qualification that you registered for and provides basic information related to how remuneration fits in the context of Human Resource Management in an organisation.

It is important that you master the learning outcomes for this module; and that you keep the study material and prescribed book after you completed this module as you will probably have to refer back to it in your further studies and working life.

### 2.2 Purpose

This module will be useful to students who need to develop a sound understanding of and ability to make suggestions for the development of remuneration and to administrate appropriate compensation and reward systems in mainly South African organisations in order to support and facilitate employee and organisational performance.

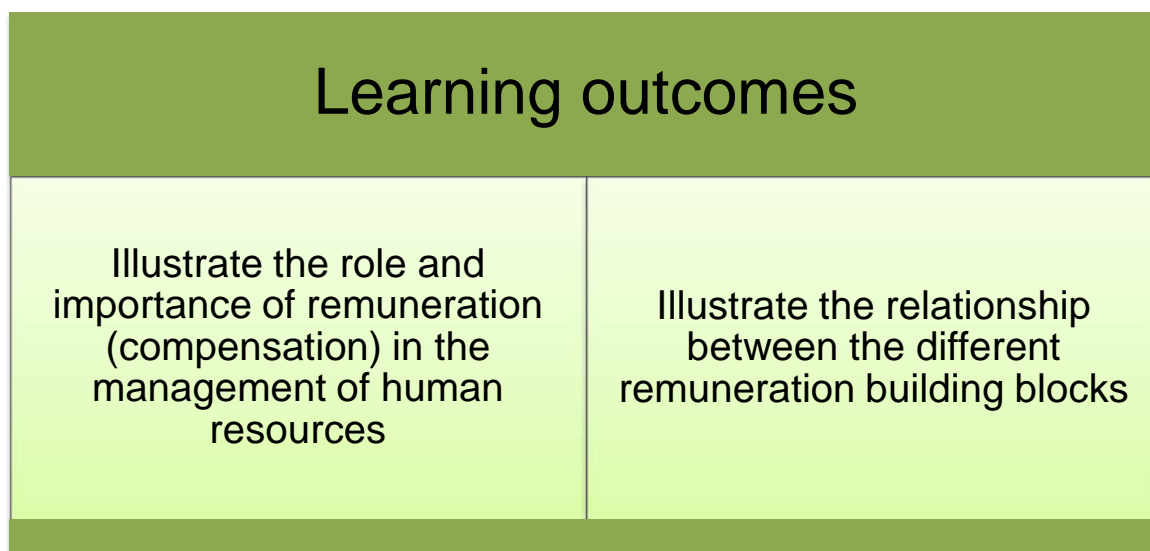
People credited with this module are able to demonstrate a solid ability to apply the theory and practice of compensation and reward to practical situations within the employment situation in South Africa.

## 3 LEARNING OUTCOMES OF THE MODULE

The learning outcomes are those outcomes that you must achieve in order to complete the module successfully and be effective in the workplace. The learning outcomes describe the things that **you as a student should be able to demonstrate** to show that you have successfully completed the module. These learning outcomes are linked to the activities in the workbooks, the assignments, and the examination and are therefore a means by which your mastery of the module can be evaluated or assessed.

The learning outcomes you must achieve for this module are indicated in figure 1. Each of the learning outcomes will be broken down into more specific learning outcomes.

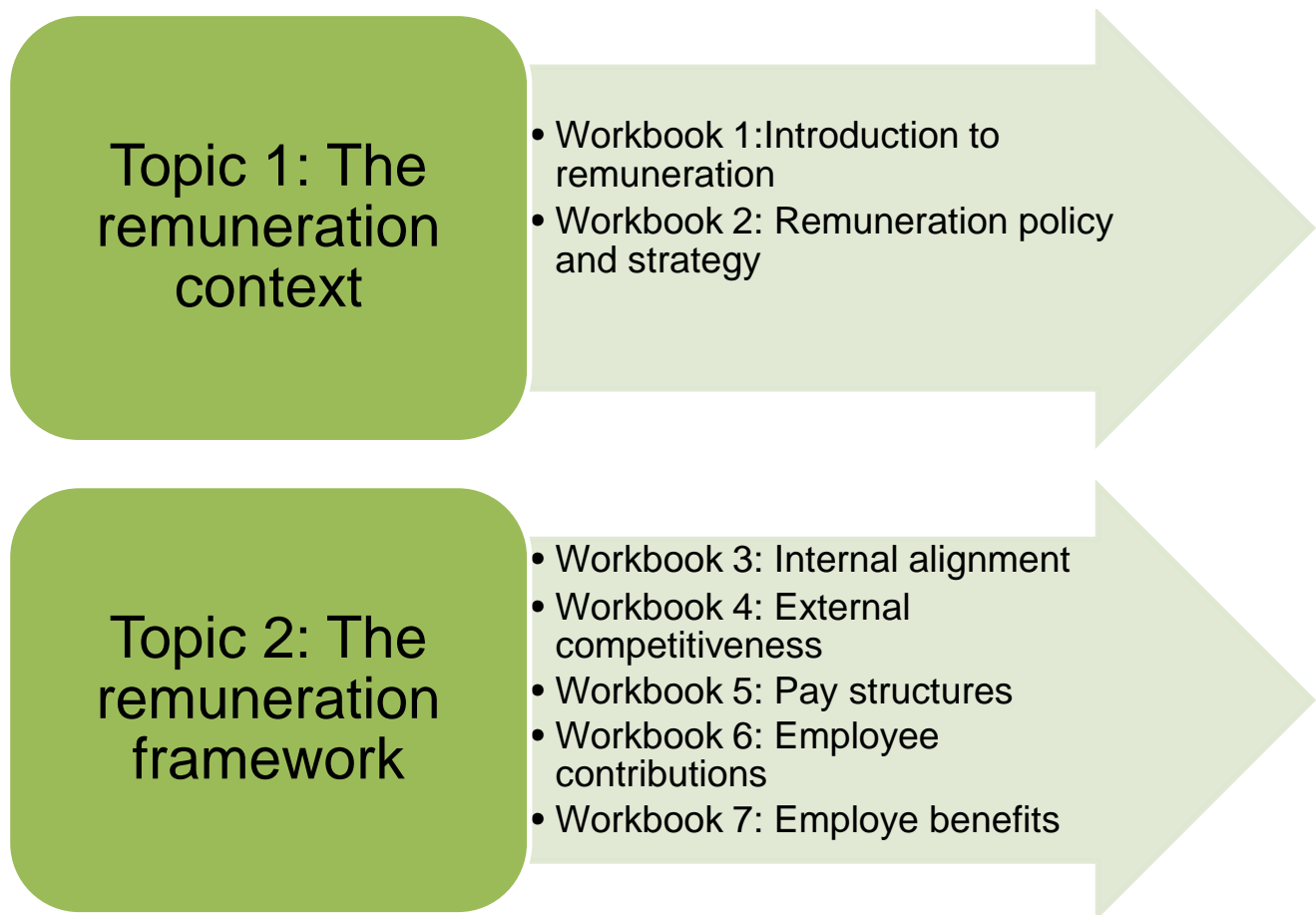
**Figure 1: Learning outcomes of the module**



## 4 FRAMEWORK FOR THE MODULE

The module is divided into **two topics** as outlined in figure 2. As you can see from figure 2, the module is divided into two topics that consist of workbooks. Altogether there are seven workbooks for this module.

**Figure 2: Outline of the topics and workbooks in this module**



To enable you to monitor your progress and obtain a holistic picture of the study material, you will see a mind map at the beginning of each topic and workbook. The aim of the mind map is to provide an overview of the content to be covered in this module and indicate where you are in the process of working through the study material.

## 5 SCHEDULE FOR THE MODULE

A suggested schedule for this module which is applicable to the specific semester you are registered for is available in tutorial letter **HRM2603/101/3**. You can access this tutorial letter by visiting the HRM2603 myUnisa module site and clicking on **Official Study Material**.

Please take note that this is only a suggested schedule and your own personal planning needs to be done according to your own unique circumstances. The assignment due dates are however fixed and these will not change.



## 6 HOW TO APPROACH THIS MODULE

For this module the core study material will be sent to you in a printed format, we will however make extensive use of myUnisa. Official study material, additional resources, and activities will be posted online and should be accessed and downloaded regularly.

### 6.1 Learning material for this module

The learning material for this module consists of this study guide, a prescribed book (which you must purchase), and tutorial letters which will be sent to you during the course of the semester. Please note that you can also access these tutorial letters under **Official Study Material** on the HRM2603 myUnisa module site. The prescribed book is of vital importance because you will not be able to complete this module successfully without it. Make sure you purchase the correct prescribed book.

Details of the prescribed book for this module are available in **tutorial letter 101** (HRM2603/101/3) and on the myUnisa module site under the **Prescribed books** tool.

You will make use of the following study material for this module:

#### **HRM2603 Study guide (this document)**

The study guide contains topics which are made up of workbooks. In the past reference was made to study units, Unisa has now implemented the workbook approach to integrate online learning for you. The workbooks follow a similar approach to the study units, but they allow for more interaction between students and the lecturer.

You need to work through the various workbooks and the corresponding chapters in the prescribed book and develop an understanding of the content. Apply the content in different contexts by doing the activities or assignments and self-assessment questions and look at it again when preparing for the examination. Once again, we would like to emphasise that you have to demonstrate that you have mastered the learning outcomes for the module. Some of the assignments will assess your ability to integrate a number of the learning outcomes. It is therefore imperative for you to fully understand all the learning material. This will enable you to apply and integrate the various learning outcomes.

Completing the activities in the workbooks will help you to work through and understand the theory in each chapter of the prescribed book. Use the feedback on these activities to evaluate your answers and to monitor your progress. You will come across activities in the workbooks which focus on the application of what you have learnt.

Other activities that you will come across are:

- Self-assessment questions **at the end of each topic** which are based on the work covered in a specific topic. These questions give you a perfect opportunity to prepare for possible examination questions and they also play a vital role in helping you to master the learning outcomes. **As we will only be providing you with learning outcomes per topic, we want to determine whether you have mastered the topic outcomes and self-assessment questions will therefore only be provided at the end of each topic and not at the end of each workbook.**

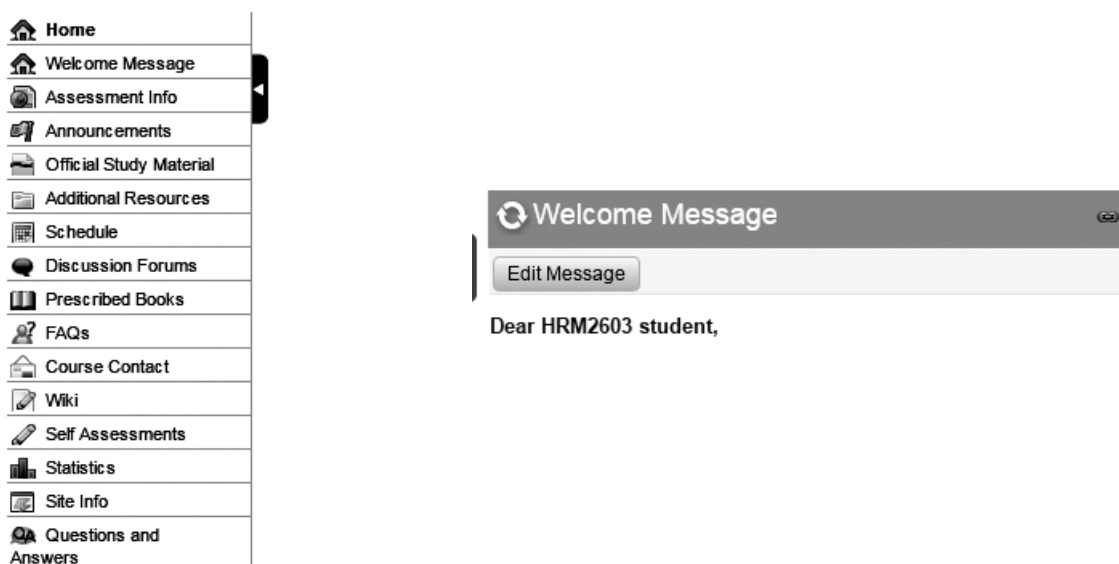
**You will notice that the each workbook does not necessarily correspond to the chapters in the prescribed book. For example, workbook 01 will not necessarily be Chapter 1 in the prescribed book. You therefore first need to peruse your workbooks and then study the relevant sections in the prescribed book which are indicated in that specific workbook.**

In addition to your study material, you will be required to have access to the internet and visit the HRM2603 myUnisa module site on a regular basis.

## 6.2 The HRM2605 myUnisa module site

In order to access the HRM2603 myUnisa module site, go to <http://myunisa.ac.za> to logon. Once you have accessed the HRM2603 myUnisa module site you will see a home page message. It is important that you read this message as it contains general information about the module and may be updated from time to time to provide you with important information. On the HRM2603 myUnisa site there are also a number of “tools” that are used. These can be found on the left-hand side of the page.

Refer to the following screenshot to familiarise yourself with the location of the home page message and the tools:



I will be making use of a number of tools on the HRM2603 myUnisa module site. The following table illustrates the tools which are applicable to this module:

Tool	Description
Home	This tool refers to the welcome page for the module. This is the screen that you will see after you have logged onto myUnisa and you have chosen the module site for this module.
Additional Resources	This tool provides a number of folders which may contain important files that you will need when completing certain activities in the workbooks.
Announcements	From time to time there may be announcements about important module-related issues. The announcements will appear on the module site so please be sure to check this site regularly to make sure that you are up to date with all the information and messages that I post.
Assessment Info	You can use this tool to view the status of your assignments, submit assignments, and to access marked assignments
Course Contact	This tool can be used to contact the lecturer directly via e-mail. Your query will be sent directly to the Lecturers e-mail address.
Discussion Forums	This tool will be used to discuss matters related to this module among yourself and your fellow students as well as to post module-related queries to your lecturer.

	This tool contains module-related frequently asked questions. Read the list of questions available before contacting your lecturer or the University as you may find the answers to the questions that you are looking for here.
	Here you will find Tutorial Letters HRM2603/101, HRMALL6/301/4 and HRMONLI/301/4. Additional items will be available during the course of the semester. Previous examination papers can also be found here.
	This tool provides relevant details with regards to the prescribed book for this module. You will also be able to access information about official booksellers who stock the book via this tool.
	Here you will be able to check your official assignment and examination dates in order to help you plan your own schedule and manage your time.

## 7 ASSESSMENT

Your progress during the semester will be assessed in two ways, namely by means of formative assessment (the assignments) and summative assessment (the examination).

### 7.1 Formative assessment

Throughout each workbook you will also be exposed to various **activities** as well as **self-assessment questions**. The purpose of these is to test your knowledge and understanding of each section that you have learnt. Although these questions do not have to be submitted to the University for marking, you can use these questions to assist you to prepare for the examination. These questions are good examples of the types of questions that you can come across in your examination.

There are two assignments for this module. **Assignment 01** consists of twenty multiple-choice questions, and **Assignment 02** consists of essay types questions based on scenarios or case-studies. Each of these assignments will contribute 10% each towards your year mark. You will gain admission to the examination by submitting **either** Assignment 01 **or** Assignment 02 timeously. If you however want to have a high year mark I would suggest that you submit both assignments for assessment. The assignments will assist you to master the learning outcomes and to prepare you for the examination.

Also refer to Tutorial Letter HRMALL6/301/4 where you will find guidelines for answering assignment questions.

### 7.2 Summative assessment

The summative assessment for this module takes place at the end of the semester in the form of a written examination. The examination is your opportunity to demonstrate that you have achieved the outcomes of this module. The examination mark will contribute **80%** towards your final mark. The examination is your opportunity to demonstrate that you have achieved the outcomes for this module.










Use the workbooks as your starting point when preparing for the examination. As indicated previously, the workbooks indicate which sections of the prescribed book must be studied and which sections must be read. Remember that I expect you to master the learning outcomes for the module. Detailed information on the examination for this module is provided in Tutorial Letter HRM2603/101/3.



You will gain admission to the examination by submitting **either** Assignment 01 **or** 02 **on or before the due date**. Students who do not submit any of these compulsory assignments will **not** be granted admission to the examination. You will have to obtain a **minimum of 50%** for the year mark and the examination mark combined in order to pass the module.

## 8 ICONS USED FOR THIS MODULE

As you work through the workbooks you will see that I use a number of icons. I have provided a list of these icons and a brief explanation of each – keep this in mind when working through the workbooks.

The following icons are used for the HRM2603 module:

Icon	Description
	<p><b>Activity</b> This icon refers to the activities that you must complete to develop a deeper understanding of the learning material.</p>
	<p><b>Take note</b> This icon refers to important information that you need to take note of.</p>
	<p><b>Case Study</b> This icon refers to activities that are based on a case study.</p>
	<p><b>Feedback</b> This icon indicates that you will receive feedback on your answers to the self-assessment activities and questions.</p>
	<p><b>Internet search/source</b> This icon indicates that you are required to obtain information by accessing a suggested website.</p>
	<p><b>Key concepts</b> The key concepts indicate which terms or keywords are important for a particular topic or learning unit.</p>
	<p><b>Learning outcomes</b> The learning outcomes indicate which aspects of the particular topic you have to master and be able to demonstrate.</p>
	<p><b>Mind map</b> The mind map will be repeated at the beginning of each topic and workbook to give you an indication of where you are in the study material. It will also give you an indication of your progress and you will also be able to see how all the topics and workbooks fit together.</p>
	<p><b>Read</b> If we suggest that you read a certain section, it means that you should take note of the content because it contains useful background information or offers another perspective or further examples. You will not be examined on this material.</p>

Icon	Description
	<p><b>Self-assessment</b> When you see this icon, you will be required to test your knowledge, understanding and application of the material you have just studied.</p>
	<p><b>Study</b> This icon indicates which aspects of the study material you need to study and internalise.</p>

## 9 SUCCESS FACTORS FOR THIS MODULE

This module is offered at NQF level 6 which means that you will need to spend at least 120 hours on this module. This includes approximately 40 hours of reading and studying the learning material, 40 hours doing the activities and assignments and 40 hours preparing for the examination.

To ensure that you deliver the quality of work required to successfully pass this module, we recommend that you:

- Study all the prescribed study material (study guide, all the tutorial letters, the prescribed book) according to the guidelines we provide.
- Relate what you are learning to your work situation if applicable so you are able to apply the knowledge that you have gained.
- Plan your studies according to the time available and develop your own study plan according to your own unique circumstances.
- Accept responsibility for asking for assistance from your lecturers or fellow students if you struggle with certain concepts, principles or processes.
- **Submit the assignments on or before the due dates** and study the feedback on assignments carefully to ensure that you understand the work properly.
- Assess your own progress continuously by completing the activities and assessment questions and carefully study the feedback and guidelines on them.
- Make sure that you master each of the learning outcomes for this module.
- Prepare properly and timeously for the examination.
- Make regular use of the myUnisa site (<http://my.unisa.ac.za>).
- Spend enough time on this module.

You can expect the following from your lecturer:

- As lecturer(s) you can expect us to support you whenever you require assistance. You may contact us telephonically, by sending us an e-mail or setting up a personal appointment to come and see us.
- We will also provide you with our inputs on the discussion forums on myUnisa where applicable.
- We further strive to provide you with timeous and detailed feedback on your assignments.

## 10 NEW LANGUAGE POLICY

Refer to tutorial letter 101 for information about the Unisa Language policy.

## 11 REFERENCES TO LINKS AND THE WORLDWIDE WEB

Remember that references are sometimes made to information that you will find on the worldwide web. As this is an ever changing environment some of these links can change. On the module site on myUnisa you will find under Additional Resources a document in the **Information to students' folder**. The name of the document is **Links to the Worldwideweb**. This document will contain information about links or websites that we refer to in this study guide that have changed and how you should deal with it. You can use the Discussion forum – **Alert the lecturer** to problems with links referred to in the study material to make the lecturer aware of these. We thus strongly advise that you consult this document first when you stumble upon links that may no longer be available, before alerting the lecturer to it.

## 12 CONCLUDING REMARKS

You are now ready to begin your learning journey and I hope that you will embark on it with enthusiasm and excitement. Together we are going to explore the exciting and dynamic field of compensation practices.

Although I will be guiding you through this learning journey and providing assistance where I can, **you are however responsible for your own success**. When doing your planning, please do so according to your own unique circumstances. Use all the resources at your disposal as all the learning material available to you was formulated to help you to master the outcomes.

Remember that you are welcome to contact the lecturer(s) if you need assistance. Contact details for the lecturer(s) are available in tutorial letter HRM2603/101/3 or you can use the course contact tool on the HRM2603 myUnisa module site.

Best wishes

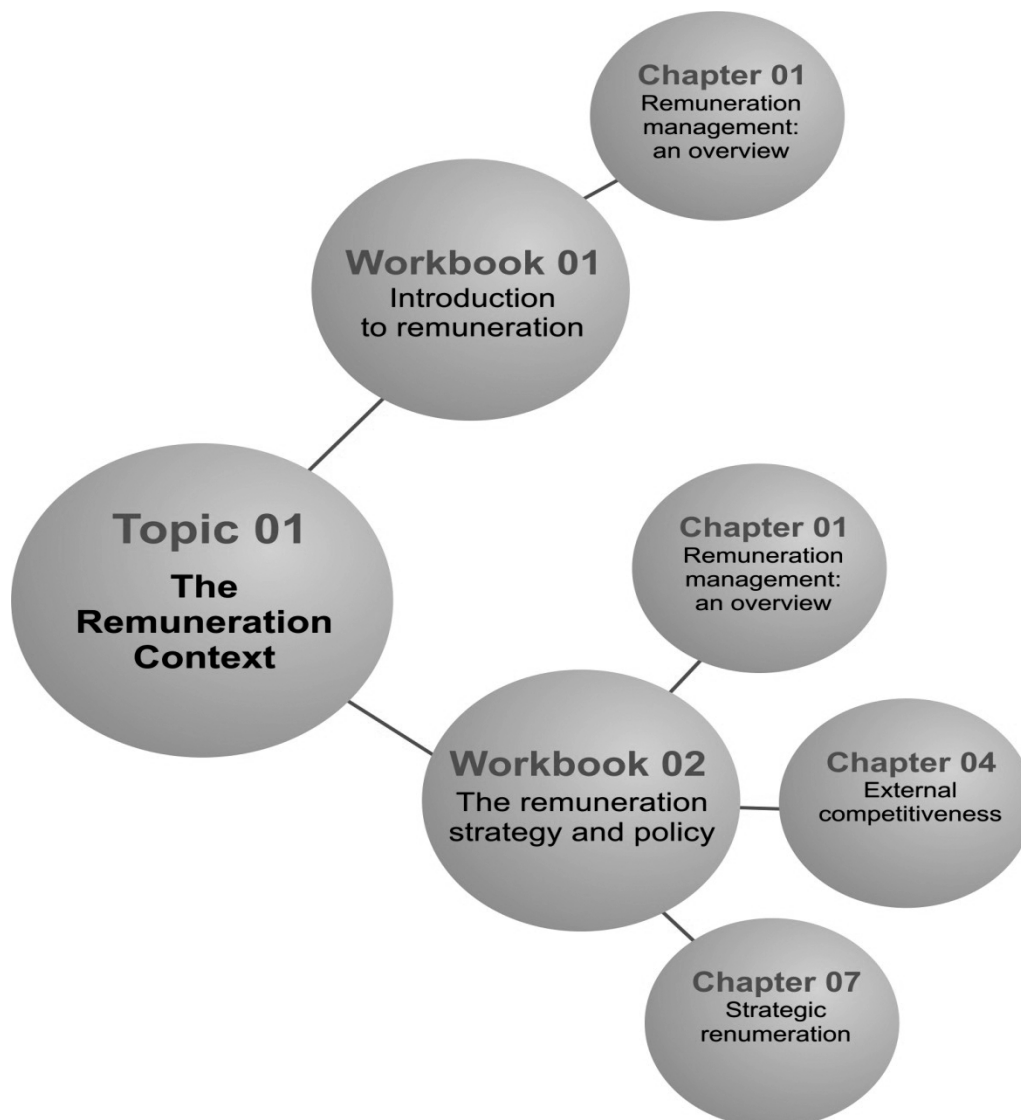
**Your Lecturer/s in Compensation Practices**  
**HRM2603**  
**DEPARTMENT OF HUMAN RESOURCE MANAGEMENT**  
**UNISA**



## Topic 1

### The remuneration context

In the preface section I explained that the module consists of two topics. I will now start with the first topic where I will introduce you to the remuneration context.



Few areas of human resource management are more important to employees and employers than remuneration. Remuneration levels determine employees' lifestyles, status, self-worth and feelings towards the organisation. As such, remuneration is a very powerful tool for influencing the work behaviour of an employee.

### Topic aim

It is time to begin an interesting journey of studying compensation practices (HRM2603). We hope you are ready!

*What is remuneration? What is the purpose of remuneration? Why do we need to remunerate employees?*

Workbook 01 will address these questions and more. Remuneration in its simplest form consists of various components. The purpose of workbook 01 is to explain these "building blocks" and provide you with the basis on which the rest of the workbook will be built. Remuneration includes all forms of payments that an employee receives for the service that he/she provides to the employer. Let's look at these different employee remunerations examples.

**Table 1: Remuneration packages**

Employee 1: Randal	Employee 2: Mahlako	Employee 3: Thapelo
Randal works as a carpenter for Mapadimeng WoodWorks. He gets paid hourly, that means he only gets paid for the hours he worked; for example, R59 per hour.	Mahlako works as an administrator for Mapadimeng WoodWorks, her remuneration is calculated on an annual basis and paid out on a monthly basis. For example, her annual salary is fixed at R120 000 and she is paid in 12 monthly instalments of R10 000.	Thapelo works in the sales department at Mapadimeng WoodWorks and he gets remunerated on a commission basis. He gets remunerated for selling products, and his remuneration is based upon a percentage of the revenue that he generates for the company.

The purpose of remuneration is to attract, retain and motivate employees. It is therefore important that remuneration packages offered by employers are competitive and market related and that they fairly remunerate employees for the services they render. In order to ensure that remuneration is handled properly, every organisation should have a remuneration strategy and remuneration policy to guide it in determining suitable remuneration packages. This function should be the sole responsibility of the remuneration and benefits manager in the organisation. Workbook 02 will address the issue of remuneration policy and strategy.

Listed below is your first set of learning outcomes, those for Topic 1. Each topic has one or more topic outcomes, and you will find these outcomes **at the beginning of each topic**. You probably know by now that these outcomes tell you what you should know and be able to do at the end of each topic and throughout the module. You can therefore use these learning outcomes to assess your progress. If you understand and are able to do what I specify in the outcomes, you should be able to answer the examination questions. Attaining these outcomes is also an indication that you are making good progress towards becoming a knowledgeable person in the field of remuneration management.

You will recall that in the preface, I mentioned that you would be following a different approach in this module. Because I will only be giving you learning outcomes for each topic, self-assessment questions will only be provided at the end of each topic and not at the end of each workbook. The purpose of this is to facilitate an integrated assessment approach. It should also enable you to gain a better understanding of how all the theory in each topic fits together. Self-assessment questions on Topic 1 will follow workbook 02 and will cover the theory you have learnt in workbooks 01 and 02.





## **LEARNING OUTCOMES**

---

### **Learning outcomes for topic 1**

After completing this topic, you should be able to illustrate the role and importance of remuneration (compensation) in the management of human resources.

More specifically you should be able to:

- Explain what remuneration is
- Explain how remuneration enables the organisation to manage its human resources
- Discuss the remuneration system by focusing on the how the remuneration building blocks make use of various remuneration processes to enable the organisation to achieve its objectives
- Understand the importance of managing remuneration from a strategic perspective



# HRM2603

## Compensation Practices

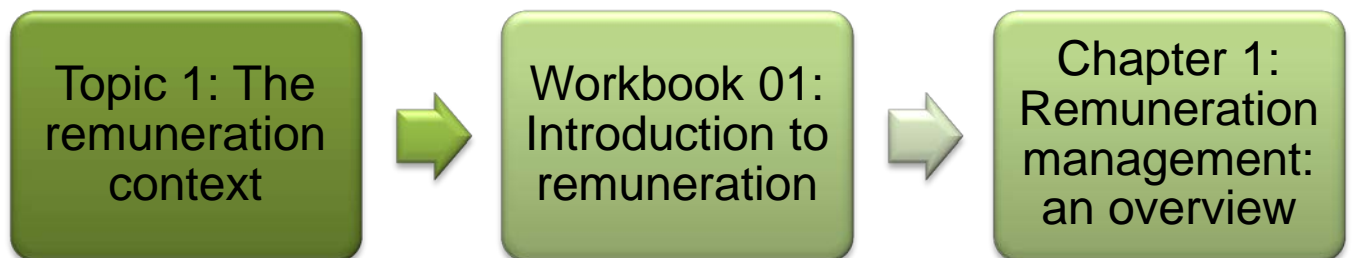
### WORKBOOK 01

#### Introduction to remuneration

Contents		Pages
1	Introduction	19
2	How does remuneration fit in the context of HRM?	19
3	What is remuneration?	20
4	Components of the remuneration system	20
5	Importance of remuneration	22
6	Objectives of remuneration	23
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8	Summary	26
9	Self-assessment	26



The aim of this schematic representation is to give you an indication of where you are in the process of working through the study material. You are now busy with workbook 01 of topic 1.



# 1 INTRODUCTION

Remember that employee remuneration is often the largest cost item to an organisation (as much as 90 percent of costs in many service organisations), and therefore the effect of remuneration on an organisation's competitive position is of critical importance. Remuneration is at the heart of an employment relationship. Employers remunerate employees so that the organisation goals can be achieved and in return employees provide their expertise and knowledge to the organisation in exchange for remuneration.



**For more information about remuneration, refer to**  
<https://youtu.be/eAE0shbnCsQ?t=65>

In this clip remuneration is defined as anything to do with the payment of an employee. You will be learning more about this in this workbook.

## Key concepts

At the beginning of each workbook you will come across a list of subject-related concepts. These are the key concepts included in the workbook.



**The key concepts in this workbook are the following:** \_\_\_\_\_

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Remuneration</li> <li>• Financial rewards</li> <li>• Non-financial rewards</li> <li>• Direct remuneration</li> <li>• Indirect remuneration</li> </ul> | <ul style="list-style-type: none"> <li>• Internal factors</li> <li>• External factors</li> <li>• Cost control</li> <li>• Human resource management</li> </ul> |
|--|---|

## 2 HOW DOES REMUNERATION FIT IN THE CONTEXT OF HUMAN RESOURCE MANAGEMENT?

Do you know who manages remuneration in an organisation? We will be learning about this now. Remuneration is one of the functions of human resource management (HRM). Remuneration management is a HRM function that has to ensure that all employees feel that they are being paid what they are worth and that their salaries compare favourably with others doing similar work. The remuneration system must be one which provides equity to the employees while allowing the organisation to remain competitive in the marketplace. Remuneration is a separate human resource function, but interdependent with other HR functions.



**Study section 1.2 (How remuneration fits into the HRM context) in chapter 1 of the prescribed book.**

After you have studied this section in the prescribed book, you can complete activity 1.1 where you will have an opportunity to apply what you have learnt.



## Activity 1.1

---

You have just been appointed as a HR consultant at Slindile Printing. Slindile does not understand why remuneration forms part of HRM. She commands you to let the finance department manage employee remuneration, since remuneration deals with employee finances. Explain to Slindile how remuneration fits in the context of HRM.



### Feedback

In answering this question you first had to give a definition of **HRM**. If you could not recall the definition of HRM, you could have referred to the study guide for HRM1501. Secondly you had to give a definition of **remuneration** and its impact on employees. Lastly you had to indicate how remuneration links with the various HRM functions. For example, performance management affects remuneration because performance appraisals determine annual merit increases and incentives such as bonus payments. Staffing decisions such as promotions will also lead to an increase in salary and hence impact on the remuneration budget of an organisation.

You should now have a good understanding of where remuneration fits in and how it is managed within an organisation. Let us take a closer look at what remuneration is and the components of a remuneration system.

## 3 WHAT IS REMUNERATION?

Do you remember the video you watched in section 1.1? Do you recall what it said about remuneration? Watch the video again to refresh your memory and continue with this section.

An organisation's remuneration system includes both financial and non-financial rewards. Financial rewards include direct and indirect payments. Non-financial rewards include anything in a work environment that enhances a worker's self-respect and the esteem in which he or she is held by others. Thus remuneration broadly includes all forms of payment (financial and non-financial) in exchange for employee contributions.

**Remuneration** can be defined as the financial and non-financial extrinsic rewards provided to an employee for the time, skills, and effort made available by the employee in fulfilling job requirements aimed at achieving organisation objectives (Swanepoel, Erasmus & Schenk 2008: 476).



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**Study sections 1.1 (Introductory part) and 1.3 (Defining remuneration) in chapter 1 of the prescribed book.**

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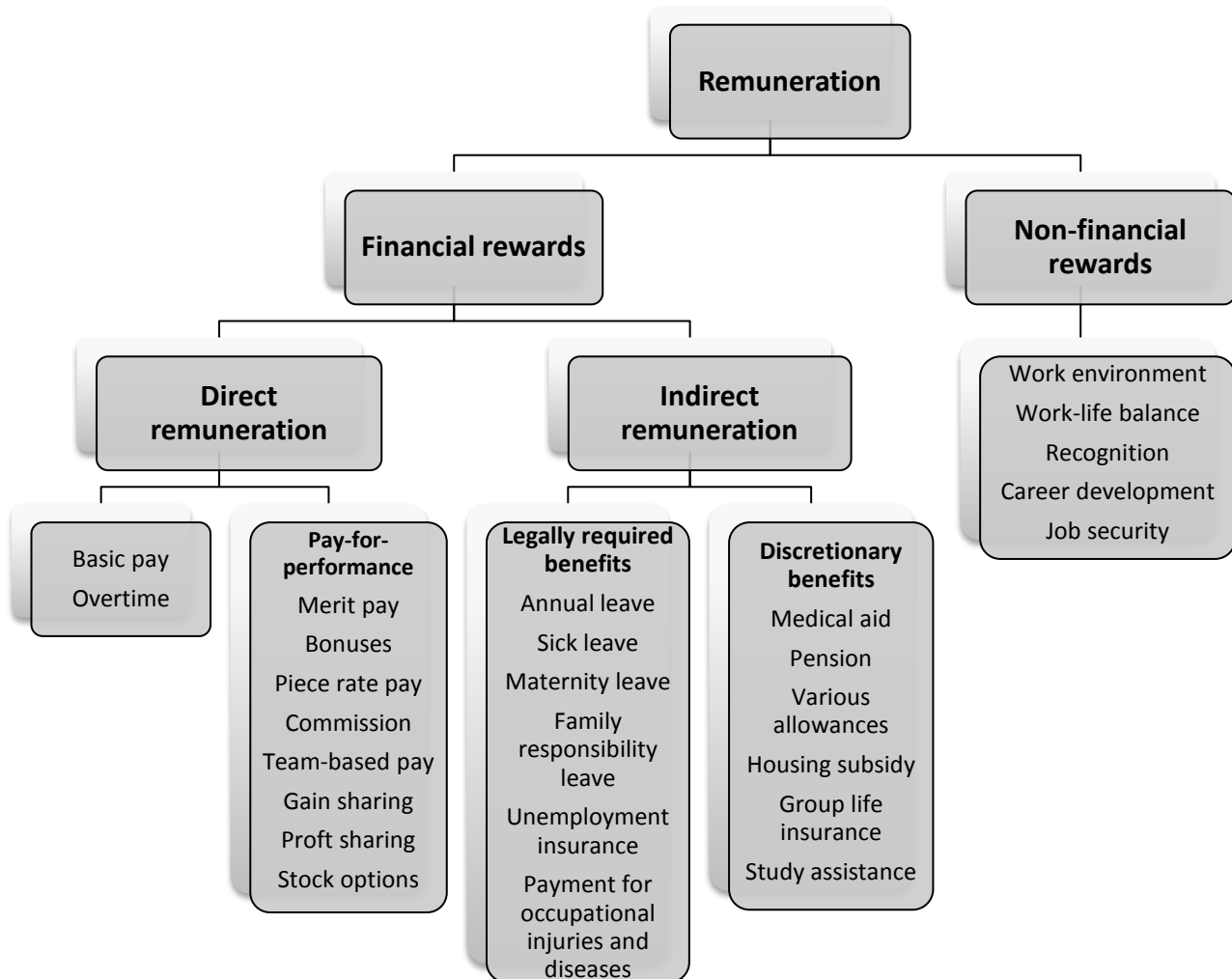
Now that you have learnt what remuneration is, let us take a look at the various components of a remuneration system.

## 4 COMPONENTS OF THE REMUNERATION SYSTEM

Remuneration represents both the intrinsic and extrinsic rewards that employees receive for performing their jobs. Together, the intrinsic and extrinsic rewards describe an organisation's total reward system (Martocchio 2011). Remuneration components serve as a source of competitive advantage as employees have different remuneration expectations and are motivated by different

remuneration elements (Coetzee, Bezuidenhout, Furtak & Lee 2016). Figure 1.1 deals with the components of remuneration.

**FIGURE 1.1: REMUNERATION COMPONENTS**



**Source:** Adapted from Bohlander and Snell (2013); Maloney and McCarthy (2013); and Mello (2011), as cited in Coetzee et al (2016)



**Study section 1.4 (Remuneration components) in chapter 1 of the prescribed book.**

You have just learned that remuneration consists of several components. Ensure that you understand what each components entails before you complete activity 1.2.



### Activity 1.2

---

Refer to the following link. Click on the payslip to enlarge it and answer the question that follows.



<http://www.tuugo.co.za/Redirect?nextPage=http://www.nuq.co.za/content/payslip>

Identify the different types of remuneration offered by the company.

### Feedback



The company offers the following remuneration: basic salary, legally required benefits such as UIF, and discretionary benefits such as a company cellphone, medical aid, pension employer contribution, and travel allowance.

Once you feel comfortable that you understand what remuneration is, you can complete activity 1.3.



### Activity 1.3

---

Discuss remuneration by focusing on the various components of remuneration. Why do organisations offer financial and non-financial rewards? Substantiate your answer in one paragraph.

### Feedback



**Remuneration** includes all forms of pay that arise from the employment relationship (Dessler 2013).

You should have realised by now, that remuneration comprises of both financial and non-financial rewards. Figure 1.1 illustrates the different remuneration components and you would have seen that non-financial rewards such as recognition and career development also form part of remuneration. Employees have different preferences and needs and they will not be motivated to perform their jobs and stay in their jobs for pay only. Remuneration managers must thus take employee needs into consideration when designing a remuneration system.

Now that you have learnt about the different remuneration elements, let us consider the importance of remuneration.

## 5 IMPORTANCE OF REMUNERATION

Why do you think remuneration is so important? Remuneration provides employees with a livelihood and enables organisations to attract and retain top talent. Remuneration managers should understand the importance of remuneration to remain competitive in the market.



**Study section 1.7 (Importance of remuneration) in chapter 1 of the prescribed book.**

After studying this section you should realise that remuneration serves as a basis for an organisation's competitive advantage, even though there are ongoing arguments about the relationship between remuneration and motivation. However, the impact of remuneration on employees should not be put aside. Remuneration enables employees to meet their needs and maintain a certain quality lifestyle.

After reading this section in the prescribed book you may complete activity 1.4.



### **Activity 1.4**

Lesiba owns a small media company in Gamasemola. At the annual board meeting, he informs the board that he does not pay much attention to remuneration issues because remuneration is not benefiting the organisation due to it being the largest cost item on the budget.

Advise Lesiba on how remuneration is important not only to employees, but to the organisation as well.



### **Feedback**

After reading the section about the importance of remuneration in the prescribed book, you should realise that remuneration is not only important to employees.

Management must effectively manage remuneration to avoid unnecessary labour costs. Labour costs have a direct impact on the profitability of an organisation. It is however not only labour costs that require proper remuneration management but also the impact remuneration has on employee behaviour such as motivation, loyalty, commitment and productivity. Remuneration is thus of critical importance to both the employer and the employee.

Now let's look at the objectives of remuneration which directs all the strategies, policies and processes of a reward system.

## **6 OBJECTIVES OF REMUNERATION**

Remuneration objectives determine the nature of a reward system. They also serve as a standard against which the effectiveness of the reward system is evaluated (Swanepoel et al 2008). Employees are remunerated for the services they provide and as such the company's remuneration system plays a pivotal role in directing employees' behaviour in terms of commitment, loyalty and productivity. Motivating employees to behave in a certain way is one of the objectives of remuneration. You will recall from your HRM1501 studies (study unit 10) that there are various objectives of remuneration.



**Study section 1.6 (Remuneration objectives) in chapter 1 of the prescribed book.**

Remuneration not only motivates talented employees, but also attracts talented employees. A competitive remuneration system will make an organisation an employer of choice. Remuneration managers must therefore consider the main objectives of the remuneration system before designing it.

The objectives of a remuneration system are summarised in figure 1.2.

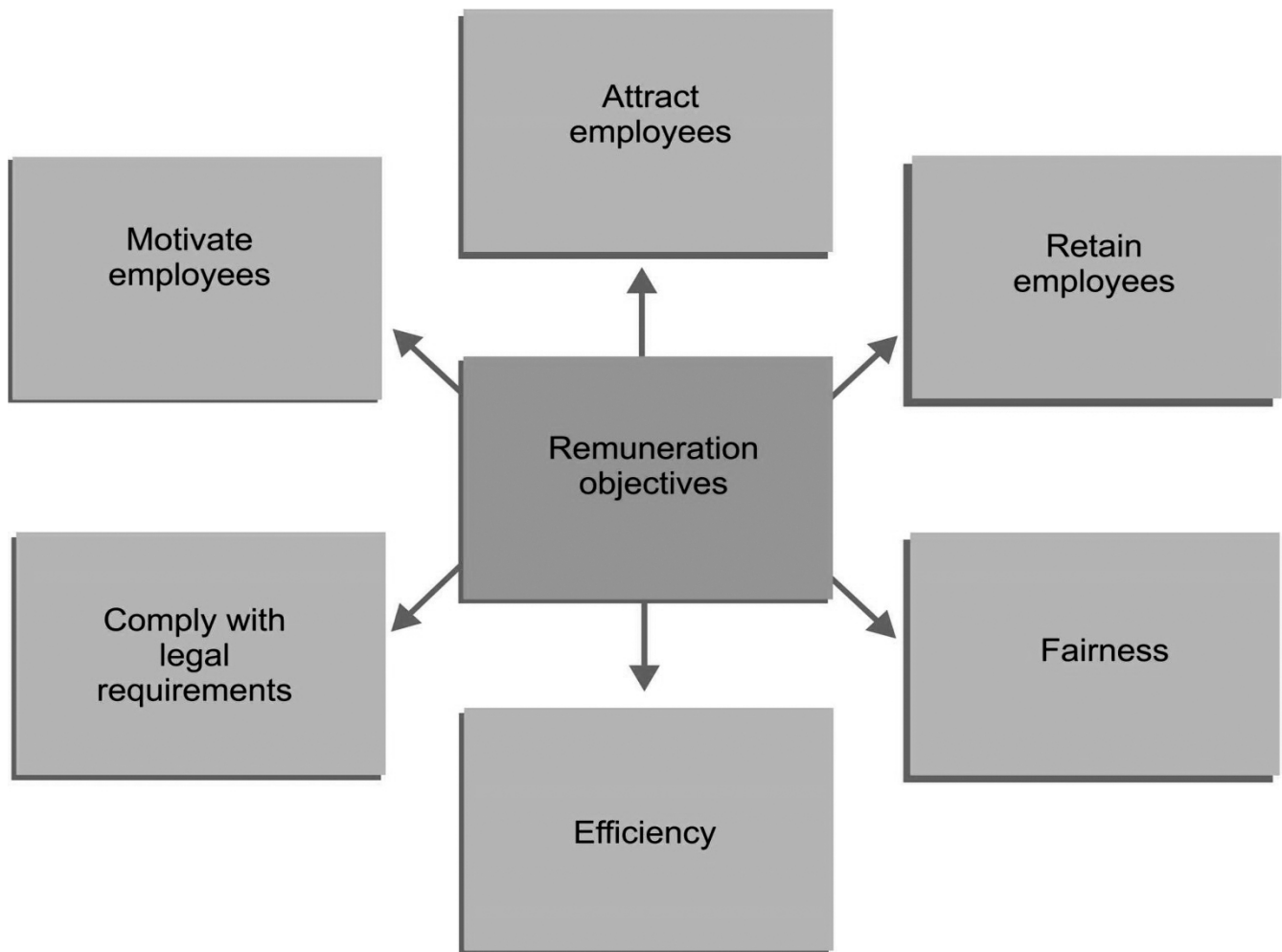


Figure 1.2: Objectives of a Remuneration System

Ensure that you understand what each objective entails before you complete activity 1.5.



### Activity 1.5

Read the following case study and answer the questions that follow based on what you have learnt.

**Makobe Manufacturing** is a large company that was founded in 1945 by Sello Makobe. Makobe is located in Port Elizabeth and employs 1 500 people, ranging from cleaners to the corporate executive team. Most of the workforce is made up of semi-skilled labour. Mashaba Makobe replaced his father as CEO five years ago.

Sello Makobe, an entrepreneur with a high school education, had been a traditional manager who followed a hands-on approach as regards to every phase of the operation. Sello took pride in Makobe Manufacturing's reputation for fair pay and satisfied employees. Sello was involved in all aspects of the remuneration plan and he had the final word on pay rates for all employees. He based pay on experience, potential, and how much each employee needed to support his or her family. As a result, Makobe Manufacturing had low absenteeism and staff turnover. After Sello Makobe retired, Mashaba took over.



Several economic factors began to challenge the company founder's approach to remuneration. Several new competitors had entered the marketplace. They paid lower wages than Makobe, so they were more profitable. Key business had been lost because Makobe had to charge more for its products in order to maintain the remuneration system's above-average pay strategy. At the same time, staff turnover had increased because employees at Makobe were of the opinion that they were not paid fairly.

Rebotile Mahlare, the HR manager, made a point of raising this at a staff meeting and indicated to Mahaba that: "Makobe is paying the highest wages in the industry, but we are steadily losing employees because they do not think they are being paid fairly and because there are too many exceptions of the pay policy". Rebotile believed that the whole pay structure, remuneration policy and job evaluation system needed to be re-evaluated.

Adapted from: Ivancevich, J.M. 2003. *Human Resource Management*, 9th edition. McGraw Hill Education (Asia), p 297.

**Question:** Remuneration objectives serve as standards against which the effectiveness of the reward system is evaluated. Which remuneration objectives is Makobe Manufacturing **not** complying with? You need to provide examples from the case study to support your answer.

### Feedback



You had to indicate the remuneration objectives Makobe Manufacturing was **not** complying with. Exceptions mean that certain criteria are not applied consistently throughout the pay system and most likely favouritism and special treatment are taking place. Some employees are being paid more than others without having justified reasons for doing so. This means that the objectives of fairness, retention, compliance with legislation (no discrimination) are not being achieved. Efficiency could also be a problem because exceptions means that funds are not spent in the most cost effective manner.

On the next section we will introduce you to the remuneration framework which the whole module is based on.

## 7 THE REMUNERATION FRAMEWORK

Like any other system in an organisation, the remuneration model provides a framework for linking the various components of remuneration. In an attempt to determine how much an employee should be paid, the organisation must consider variables, such as (1) how much are other employees earning (internal alignment); (2) how much are employees earning in similar positions in other organisations (external competitiveness); (3) will the organisation reward contributions or will all employees simply earn a fixed salary (employee contributions); and lastly, (4) will the organisation provide only mandatory benefits or should the organisation provide additional benefits. All of these variables are considered in an attempt to achieve certain remuneration objectives. These questions are based on the four building blocks which form the basis on which other practices build to achieve certain objectives.

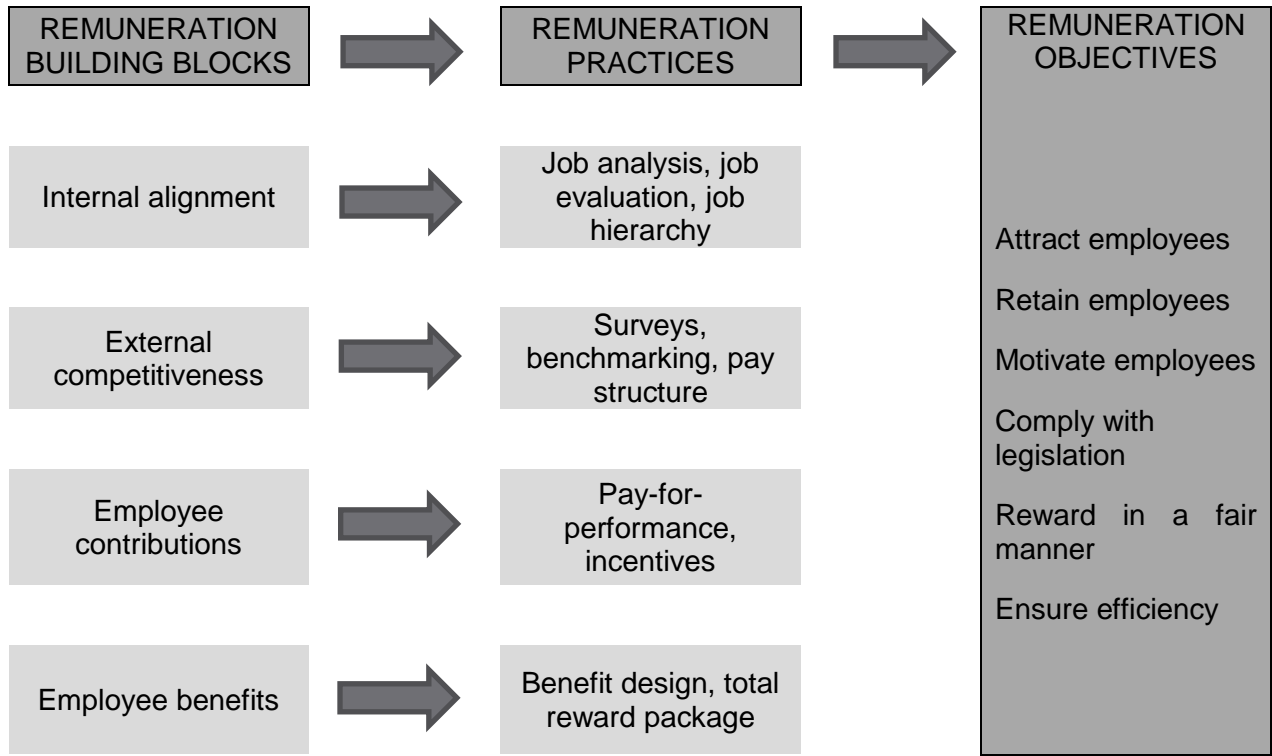
Let us make it a bit more practical. You have one dream/objective and that is to build a house. First you will need to build the pillars. You will then use bricks and cement to build the walls. After all the plumbing and wiring had been done, you will complete the roof of the house. Dream accomplished – your house has been built.

- The *pillars of the house* represent the *building blocks* of a remuneration system.
- The *bricks and cement* represent the various remuneration practices and techniques that must be implemented to achieve certain remuneration objectives
- The *house* represents the remuneration objectives.

Try to apply this practical example to the remuneration framework illustrated in figure 2.2. Although the remuneration framework will be discussed in detail in Topic 2, it is important that you have an overall

view of the remuneration framework. Take note that each building block uses specific processes or actions to achieve the remuneration objectives. Internal alignment uses job analysis, job evaluation, and the creation of a job hierarchy to meet the remuneration objectives of retention, compliance, fairness, and efficiency. In this case attraction, as a remuneration objective, is not very important but it will become important where external competitiveness is concerned. Do not feel discouraged if the framework feels overwhelming at this stage; it will be discussed in detail in Topic 02.

**FIGURE 1.3: REMUNERATION FRAMEWORK**



**Source:** Adapted from Milkovich, Newman and Gerhart (2014) as cited in Coetzee et al (2016)

## 8 SUMMARY

In this workbook, I gave you a broad overview of the concept remuneration. You learned that remuneration must not be seen in isolation, but as a subsystem of human resource management. I also outlined the various components, importance and objectives of remuneration. You were also introduced to the remuneration framework model which will be discussed in topic 2. You should now be able to discuss what remuneration is and its importance to both employees and employers. In the next workbook we will learn about the policies of remuneration and the methods that can be used to develop a remuneration strategy.

## 9 SELF-ASSESSMENT



You will recall that in the preface I mentioned that I will be following a different approach in this module. Self-assessment questions will therefore be provided at the **end of each topic** and not at the end of each workbook. The purpose of this is to facilitate an integrated assessment approach. This will enable you to gain a better understanding of how all the theory in each topic fits together. Self-assessment questions on Topic 1 will be provided at the end of workbook 02. These questions will cover the theory you have learnt in workbooks 01 and 02.



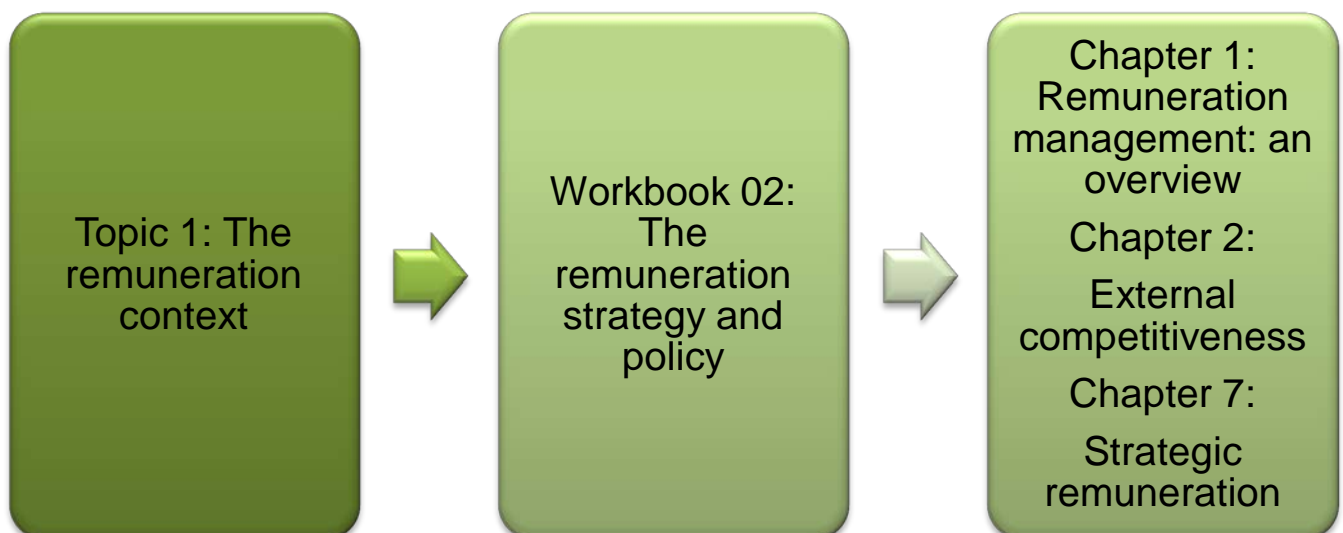
## WORKBOOK 02

### The remuneration strategy and policy

Contents		Pages
1	Introduction	28
2	Factors influencing remuneration	28
3	Remuneration strategy	29
4	Remuneration policy	31
5	Pay level policy	32
6	Summary	33



Let us begin with workbook 02. Workbook 02 is called the remuneration strategy and policy. The aim of this schematic representation is to give you an indication of where you are in the process of working through the study material. You are now busy with workbook 02 of topic 1.



# 1 INTRODUCTION

All organisations should have a remuneration strategy and policy and some may have written strategies and policies for everyone to see and understand (Milkovich, Newman & Gerhart 2011). Employers are realising that, rather than replicating the reward practices of other organisations, their reward strategy must be created to support their own unique human capital strategy – that is the “people” side of the business. An organisation's remuneration policy and strategy must support the strategic plan and actions of the organisation to create a competitive advantage (Henderson 2006). In the next section we will discuss the factors that must be considered first when designing an organisational strategy and policy.

## Key concepts



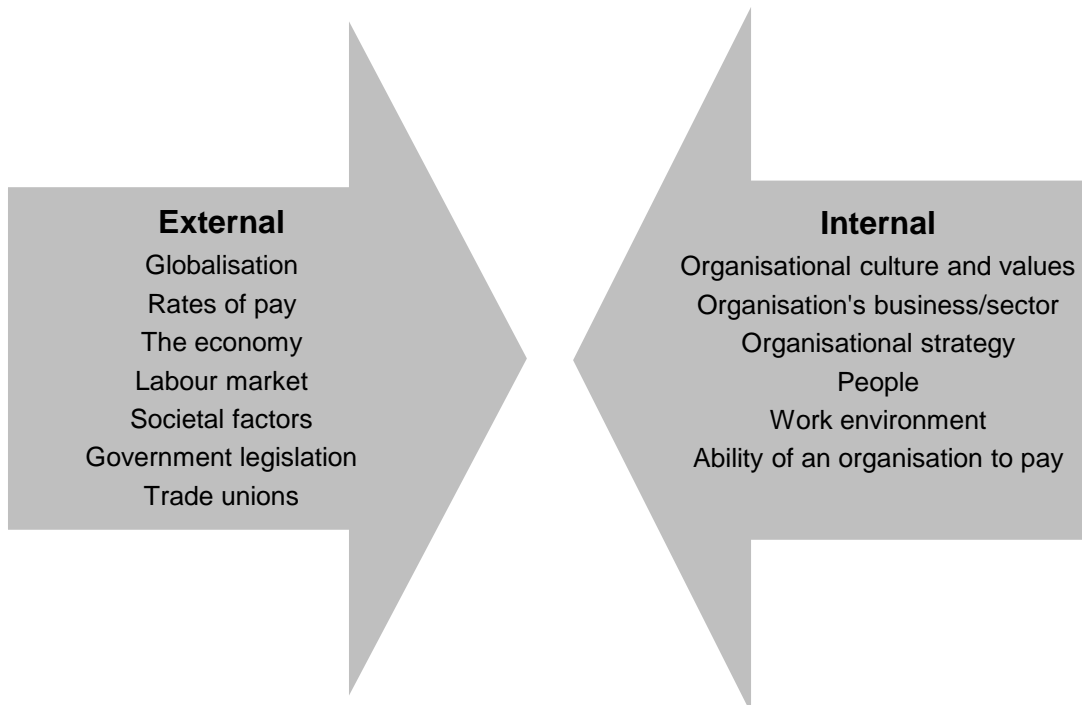
**The key concepts in this workbook are the following:**

<ul style="list-style-type: none"> <li>• Remuneration strategy</li> <li>• Remuneration policy</li> </ul>	<ul style="list-style-type: none"> <li>• Industry growth</li> <li>• Pay level policy</li> </ul>
--	---

# 2 FACTORS INFLUENCING REMUNERATION

There are various interacting factors that have an impact on the design of the remuneration strategy (Swanepoel et al 2008). Some of these are external forces, while others are a function of the internal conditions of the organisation. Figure 2.1 depicts these influences.

**FIGURE 2.1: EXTERNAL AND INTERNAL FACTORS INFLUENCING REMUNERATION**



**Source:** Adapted from Armstrong (2010); Swanepoel et al (2008) as cited in Coetzee et al (2016)



**Study section 1.8 (Factors influencing remuneration) in chapter 1 of the prescribed book.**

Various internal and external factors influence remuneration, for example globalisation, trade unions, government legislation, the work environment, people, and the organisational strategy. Once you have read through section 1.8 in the prescribed book and understand how each factor affects remuneration, you may complete activity 2.1.



### **Activity 2.1**

Identify and discuss the various factors that have an impact on remuneration.



### **Feedback**

There are several internal and external factors that have an impact on remuneration.

**The economy** has the greatest influence on remuneration. During a recession, unemployment is high and the competition for jobs is fierce. Organisations can thus afford to offer lower salaries because employees are desperate for jobs.

**Labour legislation** regulating for example minimum wages can create a situation where organisations need to freeze salary increases or cut back on bonuses in an attempt to maintain profitability levels.

**Market pay rates** and other forms of remuneration offered by competing organisations will force organisations to review their pay structures in an attempt to compete in the labour market. Organisations that pay below the market rate will find it hard to attract the best candidates and will be stuck with “left-overs” of employees that could not find jobs anywhere else.

The **organisation’s ability to pay** will influence pay levels. Larger organisations are usually in a better financial position to pay higher salaries than smaller organisations.

The next section we discuss the remuneration strategy and how the strategy provides an indication of how the organisation aims to achieve remuneration and organisation objectives over the long term.

## **3 REMUNERATION STRATEGY**

A remuneration strategy defines what an organisation wants to do in the long term achieve certain organisation objectives. The purpose of a remuneration strategy is to inform all employees of the direction the organisation aims to follow as regards to remuneration. The remuneration strategy should therefore be based on the needs of the organisation and the employees.



**Study section 7.4 (What is a remuneration strategy), section 7.4.1 (The building blocks of a remuneration strategy) and section 7.4.2 (Remuneration strategy guiding principles) in chapter 7 of the prescribed book.**

After you have worked through these sections in the prescribed book you should have noticed that:

1. There are specific reasons and matters of importance as to why a remuneration strategy should be implemented.
2. There are several components of the remuneration strategy known as building blocks.
3. There are guiding principles that remuneration specialists should consider when developing a remuneration strategy.

The different growth stages of an organisation necessitate different remuneration strategies. As Martocchio (2006) states: “As much as people are born, grow, mature, decline and die, so do companies, products and services. Business priorities, including human resources, vary with life stages. In particular, lifecycle stages influence the choice of competitive strategies and such specific HR strategies as compensation.” An organisation that is starting up will most probably not have the financial resources that an organisation in a mature phase has.

According to Bussin (2012), there are several methods that can be used to assist organisations to develop a remuneration strategy. Table 2.1 shows the most appropriate remuneration strategy for each growth phase of an organisation.

Table 2.1: The industry growth phase and remuneration strategy

Organisation growth phase			
Embryonic	Growth	Mature	Ageing
<ul style="list-style-type: none"> <li>• Start up</li> <li>• New product development</li> </ul>	<ul style="list-style-type: none"> <li>• Acquire market share</li> <li>• Find new markets</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidate position</li> <li>• Find and protect market niches</li> <li>• Become low-cost producer</li> </ul>	<ul style="list-style-type: none"> <li>• Cost reduction</li> <li>• Withdraw from unprofitable market segments</li> </ul>

Common approaches to remuneration according to organisation growth phase			
Embryonic	Growth	Mature	Ageing
<ul style="list-style-type: none"> <li>• Less emphasis on salary, benefits, and perks.</li> <li>• Attention to share options and long-term incentives</li> <li>• Stress on non-financial rewards (excitements of the new venture)</li> </ul>	<ul style="list-style-type: none"> <li>• Continued emphasis on long-term incentives with increasing attention to ways to promote short-term results</li> <li>• Catch up with salary and benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Most attention focused on keeping salary and perks competitive</li> <li>• Reduced concern for long-term incentives</li> <li>• Bonuses orientated to productivity improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits and salary are king</li> <li>• Very little attention given to long-term growth-oriented incentives</li> </ul>

**Source:** Adapted from Bussin (2012:10-11)

After you have studied these sections and feel that you have mastered its contents, you may complete activity 2.2.



## Activity 2.2

Compare company A and B and answer the questions that follow.

### Company A

Company A is in the financial services market and has been in business since 2000. The purpose of their remuneration strategy is to attract, retain and motivate employees to achieve the objectives of the organisation within its risk appetite and risk management framework.

### Company B

Company B is also in the financial services market, and was established in 2011. Its remuneration is centrally managed, with emphasis on internal equity.

**Question:** Indicate the industrial growth phase of each company and explain which remuneration strategy would probably be the most suitable.



### Feedback

Remember that the remuneration strategy needs to underpin the business strategy and this is influenced by a number of factors: Maturity of the organisation (i.e. embryonic, growth, mature, or ageing); trends in remuneration practices in the sector; the financial status of the organisation; and the values approach of the organisation.

Considering that company A was established in 2000, one could say that it is in the growth maturity phase. Therefore, its business strategy would most likely be to acquire new market share and to find new markets. The most common approach to remuneration for an industry in the growth maturity phase would be to place a continued emphasis on long-term incentives while paying increasing attention to ways to promote short-term results. The company also needs to “catch up” with the salaries and benefits of competitors in the market.

Company B, established in 2011, will be in the embryonic phase. Its business strategy would most likely be based on common business strategies and its focus would be on new product development. The company’s approach to remuneration would most probably focus less on salary, benefits and perks, and would focus more on non-financial rewards. The company would also pay attention to share options and long-term incentives.

Once an organisation has developed a remuneration strategy, they can proceed in developing a remuneration policy.

## 4 REMUNERATION POLICY

It is important to realise that remuneration policies should be implemented in organisations as they provide guidelines to remuneration managers on how to manage employee rewards and benefits. Some of the guidelines that remuneration policies include are: how could one compare oneself to the market? What are the latest remuneration trends in the market? What is the market paying, and is the organisation paying according to what the market is paying?

A remuneration policy sets guidelines for decision-making and action. Remuneration policies are formalised guidelines for remuneration-related decision-making by management (Swanepoel et al 2008). Such policies indicate to management what behaviour is expected in given circumstances when reward issues are to be dealt with.

The following topics should be included in a company's remuneration policy.

- **Statement of intent** to orientate the reader immediately as to why the policy exists, who it is intended for, and the primary purpose of the policy.
- **The purpose** suggests that employees should be entitled to fair pay for a day's work. The purpose of the remuneration policy is also to ensure that employees are remunerated for overall job requirements, and that their accountability and the complexity and diversity of their tasks are defined.
- **The application and scope** suggest that the remuneration policy should be applicable to all employees working for the organisation, whether permanently employed or on a contract basis. All such employees should be listed on the organisation's payroll and should have contracts with the specific company for at least six months in a financial year. Take note that the remuneration policy should not be applicable to temporary personnel supplied by another employer.
- **Document control and versions** will track the various versions of this document. The most common form is a table showing the document name, the date and version number of the current document, and who the author is. Sometimes, there is space for tracking who the originator/drafter of the document is (for example, the remuneration manager), who is responsible for implementing the policy (for example, the HR manager), and who is accountable or signs it off/signs for it (for example, the CEO)
- **Links to performance management** suggest that performance-related pay (PRP) should be implemented. It may suggest that employees should have a portion of their pay determined by their individual or team's performance.
- **Communication and the extent of transparency allowed.** It is important to include all employees in the design, implementation and modification of remuneration programmes. Each of these aspects, as well as ongoing changes, should be communicated to all employees and internal stakeholders, preferably in the form of clear statements.

## 5 PAY LEVEL POLICY

Pay level policy refers to how an organisations average pay rate for a specific group of jobs compares to that of its competitors. This policy is of particular importance since it has a direct impact on an organisation's ability to attract and retain appropriately qualified and competent employees and on its competitive position in its market, that is the level of external equity it maintains (Swanepoel et al 2008). There are different types of pay policies; organisations must ensure that the correct pay level policy is adopted based on the organisation's remuneration strategy. Refer to the prescribed book for the discussion of the pay level policies.



**Study section 4.7 (Determining the pay policy) in chapter 4 of the prescribed book.**

---

An organisation's compensation policy concerns how the organisation wishes to compete with its competitors in the labour market (Henderson 2006). Does it lead the market and pay more than competitors; or does it match its competitors? Does it pay the going rate, or does it lag behind competitors by paying less than its competitors?



## **6 SUMMARY**

By now you should have realised the importance of the remuneration strategy and the remuneration policy. First i introduced you to the external and internal factors that have an impact on remuneration. The discussion then focused on the remuneration strategy and how to identify the most appropriate remuneration strategy, depending on the organisation's growth phase. In an attempt to implement a strategy, pay policies need to be put in place. Organisations can decide to follow a lead, lag, match, or hybrid pay policy – depending on the organisation's unique circumstances and remuneration strategy. In the next topic you will be introduced to the first remuneration building block, namely internal alignment and how a job hierarchy is developed.



## INTEGRATED SELF-ASSESSMENT QUESTIONS FOR TOPIC ONE

### Question 1

Discuss what remuneration is and how it fits into the context of HRM.

[5]

### Question 2

Refer to the pay slip below and answer the question that follows.

<b>Company EFG</b> 10 Baines Road, Potchefstroom, 2520		
Name of Employee: Tshepo du Plessis		
Designation: Fitter and Turner		
Date: 25 November 2017		
Description	Earnings	Deductions
<b>Basic Pay</b>	25 000.00	
Cellphone allowance	500.00	
<b>Car allowance</b>	1 500.00	
Medical aid		1 700.00
Provident fund		2 500.00
Overtime	1 750.00	
Profit-sharing	3 000.00	
<b>Day-care assistance</b>	500.00	
<b>Unemployment insurance</b>		152.88
Tax – regular earnings		7 598.95
Tax – fringe benefits		359.66
	32 250.00	12 311.49
<b>Net pay</b>	<b>19 938.51</b>	

Identify the type of remuneration that is printed in bold in the above payslip.

[4]

### Question 3

Describe the differences between the types of pay you have identified in the pay slip in question 2.

[10]

### Question 4

Read the paragraph and answer the question that follows.

---

#### **Organisation:** Alexander Forbes

Alexander Forbes is a leading retirement fund and administration provider in South Africa. At the heart of the business is a team of qualified financial advisers and consultants. The financial advisers use a team approach and consultants are remunerated based on performance.

Their pay and benefits package are structured as follows:

**Pay and benefits:** Salaries are above the industry standard. Regular salary surveys are undertaken. Salaries are reviewed annually and employees receive a 13<sup>th</sup> cheque.

Adapted from: Grobler, P, Wörnich, S, Carrell, MR, Elbert, NF & Hatfield, RD. 2006. *Human resource management in South Africa*. 2<sup>nd</sup> edition. London: Thomson Learning; <https://www.alexanderforbes.co.za/about-us/about-us.aspx> (accessed on 12 December, 2014).

---

Identify Alexander Forbes' pay policy. You also need to discuss this pay policy by providing examples from the scenario. [3]

**Question 5**

Complete the table below.

[10]

Internal factors influencing remuneration	External factors influencing remuneration
•	•
•	•
•	•
•	•
•	•
•	•
•	•



## FEEDBACK TO SELF-ASSESSMENT QUESTIONS FOR TOPIC ONE

### Question 1

In order to answer this question you first have to discuss what remuneration is. Remunerations is the financial and non-financial extrinsic rewards provided by an employer for the time, skills and effort made available by the employee in fulfilling job requirements aimed at achieving organisational objectives. Discussing how remuneration fits in the context you had to explain that remuneration management is a human resource management function that is usually managed by the HRM department. It is however a separate HRM function which is interrelated with other HRM activities.

### Question 2

As you have learnt in workbook 01, there are several components in a remuneration system. The components in the pay slip can be identified as the following:

The basic salary is referred to as **direct remuneration**

Car allowance is referred to as **indirect remuneration**

Day-care assistance is referred to as **discretionary benefits** (*indirect remuneration*)

Unemployment insurance is referred to as **legally required benefits** (*indirect remuneration*)

### Question 3

To answer this question you firstly needed to give the definition of the types of pay in order to discuss the differences. You therefore needed to define what direct and indirect remuneration is as well as discretionary and legally required benefits. Thereafter you needed to indicate that direct and indirect remuneration are components that are guaranteed every month. Although not all employers may offer indirect remuneration, once these are part of an employees pay slip, the employee is guaranteed that he/she will be remunerated every month. They are therefore not dependent on performance. With legally required benefits, an organisation is obliged to pay employees these benefits. It is not a choice but rather a requirement. With discretionary benefits, an organisation can choose whether they want to offer these types of benefits.

### Question 4

Refer to section 4.7 of your prescribed book for the different types of pay policies. The pay policy that Alexander Forbes has adopted is the market lead policy. You also had to discuss this pay policy. In the paragraph it is indicated that Alexander Forbes *salaries are above the industry standard*.

### Question 5

Refer to figure 1.4 in workbook 1 and section 1.8 of the prescribed book. Take note that for exam preparation you not only have to list these factors, but also discuss how they affect remuneration.

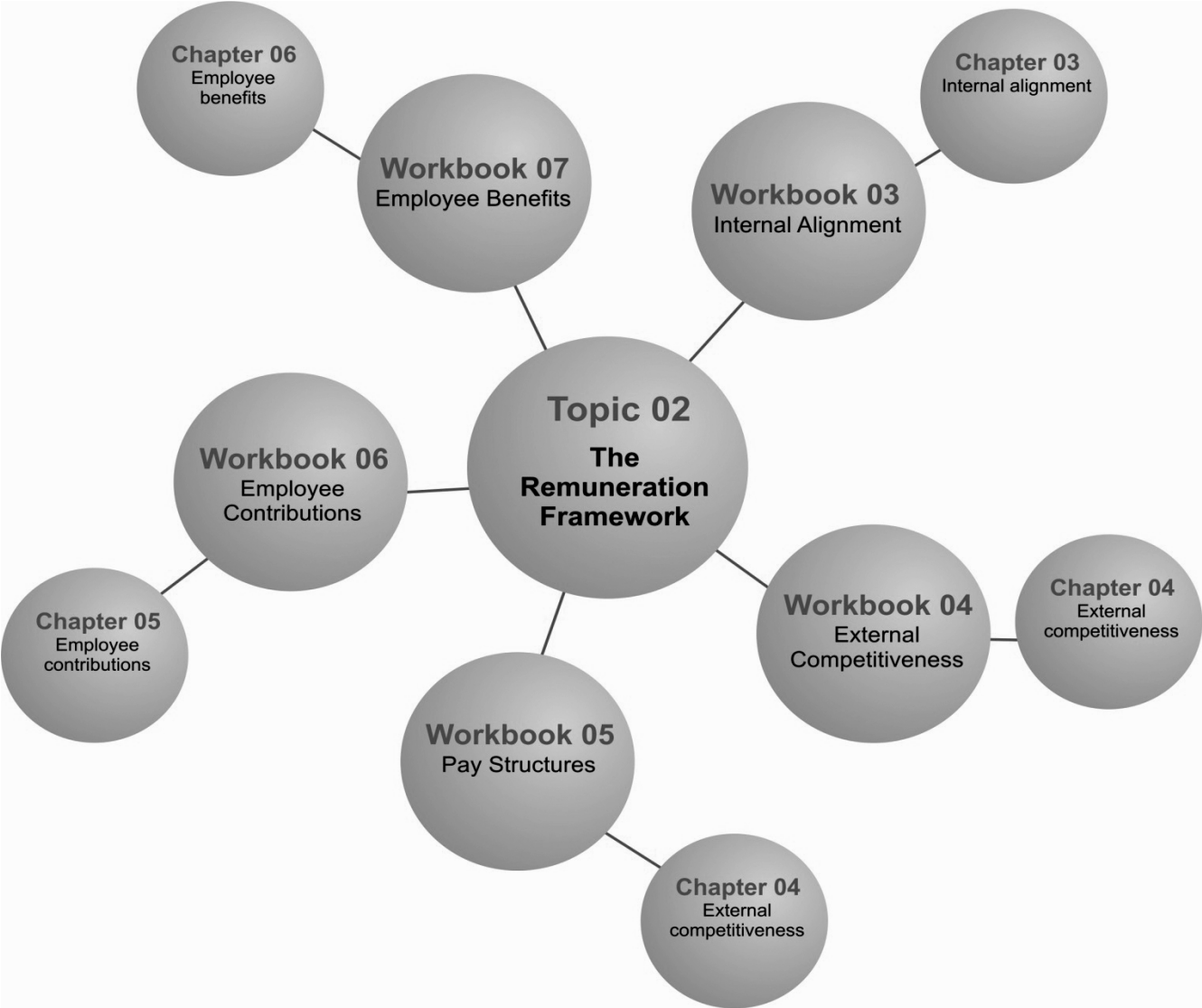
External factors	Internal factors
Globalisation	Organisational culture and values
Rates of pay	Organisations business/sectors
The economy	Organisational strategy
Labour market	People
Societal factors	Work environment
Government legislation	Ability of an organisation to pay
Trade unions	



## Topic 2

### The remuneration framework

This module consists of two topics. In each topic outline I will give you a schematic representation to indicate which topic we are at. I will now progress to the second topic, where I will introduce you to the building blocks of remuneration.

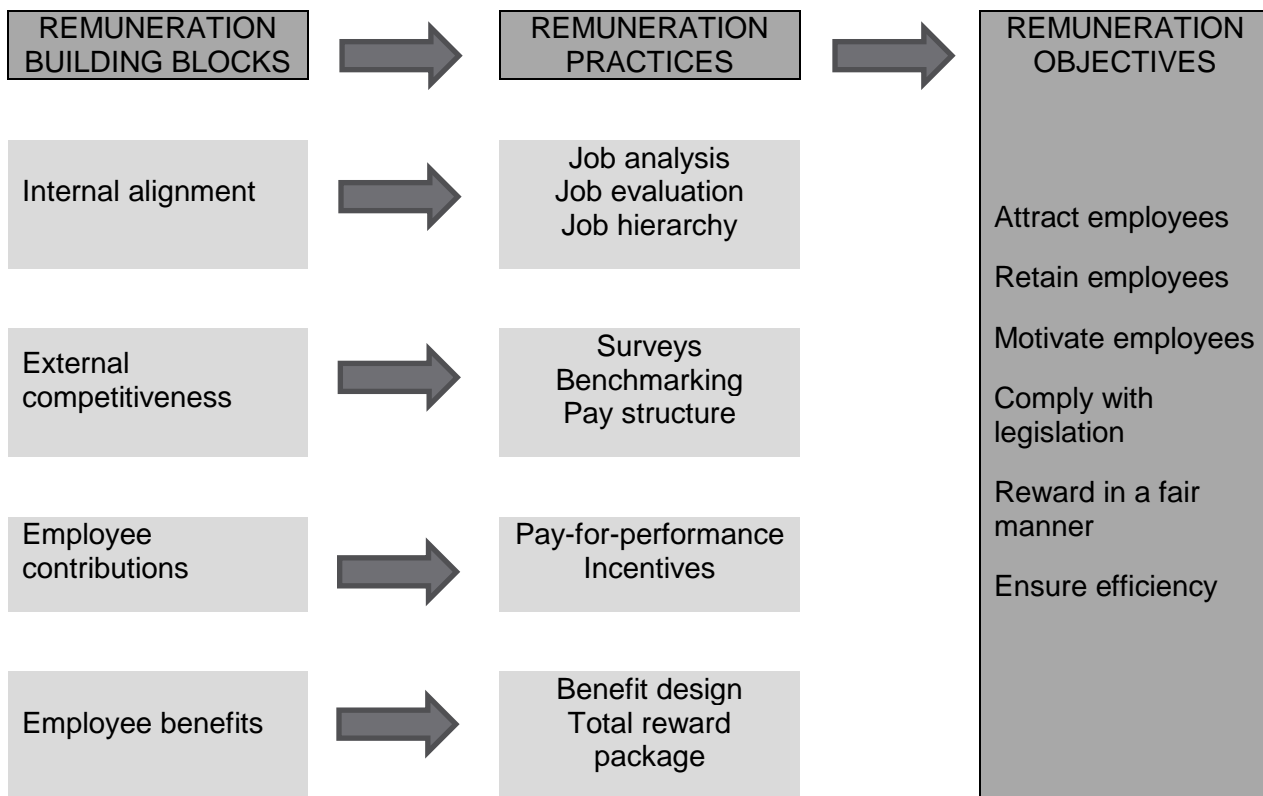


So far I have developed your understanding of the purpose and the need for remuneration; and in workbook 02 we discussed the remuneration policy and strategy. The first step will be to help you understand internal alignment (workbook 03), external competitiveness (workbook 04), pay structure which forms part of external competitiveness (workbook 05), employee contributions (workbook 06) and employee benefits (workbook 07).

**Topic aim**

I am going to use the remuneration framework as a point of departure.

**FIGURE 3.1: REMUNERATION FRAMEWORK**



**Source:** Adapted from Milkovich, Newman and Gerhart (2014), cited in Cotzee et al (2016)

Workbook 03 will address the remuneration practices that organisations use to develop a pay structure. However, the pay structure will also have to be integrated with what other organisations are paying in the market, and therefore the second remuneration building block (external competitiveness) will be discussed in workbook 04 and workbook 05.



**LEARNING OUTCOMES**

**Learning outcomes for topic 2**

After completing this topic, you should be able to illustrate the relationship between the different remuneration building blocks. More specifically, you should be able to:

- Differentiate between the components of the remuneration framework
- Recommend appropriate types of pay for various organisational contexts
- Illustrate how compensation strategies, policies and processes and practices facilitate various human resource management functions in an organisation



## WORKBOOK 03

### Internal alignment

Contents		Pages
1	Introduction	40
2	Internal alignment	41
2.1	Job analysis	43
2.2	Job evaluation	45
3	Summary	48
4	Self-assessment	48



The aim of this schematic representation is to give you an indication of where you are in the process of working through the study material. You are now busy with workbook 03 of topic 2.

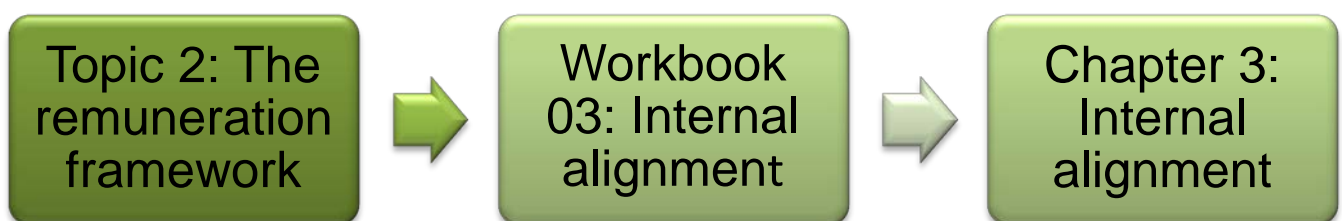
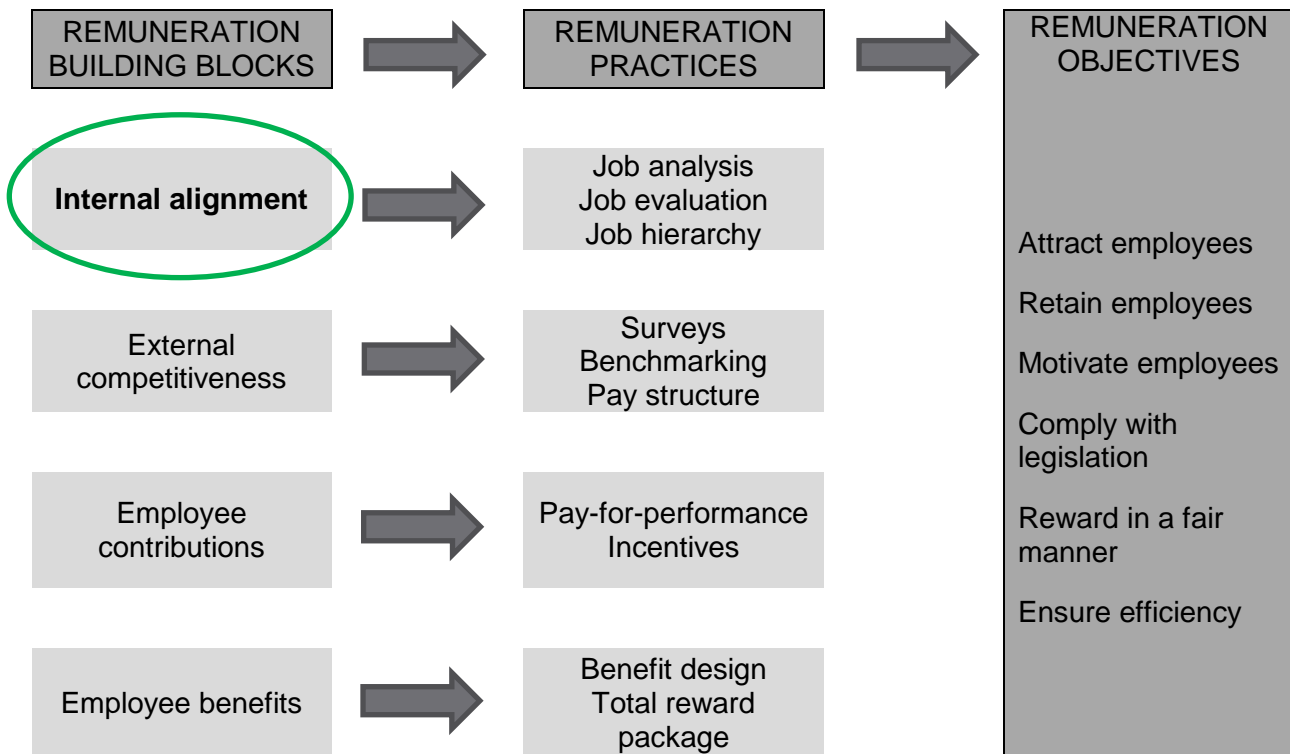


Figure 3.1 depicts the remuneration framework, on which topic 2 is based. Workbook 03 deals with internal alignment.

# 1 INTRODUCTION

Most of you might have noticed from your workplace that organisations offer different salaries to employees. In this workbook I will indicate how organisations make decisions about how much to pay their employees. For example, we all know that a HR director needs to be paid more than an HR administrator; but how do organisations determine how much an engineer/accountant need to be paid? Remuneration practices refer to all the procedures and processes that organisations use to develop a pay structure and to make sure that the pay structure enables the organisation to achieve the remuneration objectives. In workbook 03 I will be discussing internal alignment which is the first building block of the remuneration framework.

**FIGURE 3.1: REMUNERATION FRAMEWORK**



Source: Adapted from Milkovich, Newman and Gerhart (2014), cited in Coetzee et al (2016)

## Key concepts



**The key concepts in this workbook are the following:** \_\_\_\_\_

<ul style="list-style-type: none"> <li>• Internal alignment</li> <li>• Job evaluation</li> <li>• Remuneration practices</li> <li>• Salary survey</li> </ul>	<ul style="list-style-type: none"> <li>• Job analysis</li> <li>• Job specification</li> <li>• Job hierarchy</li> </ul>
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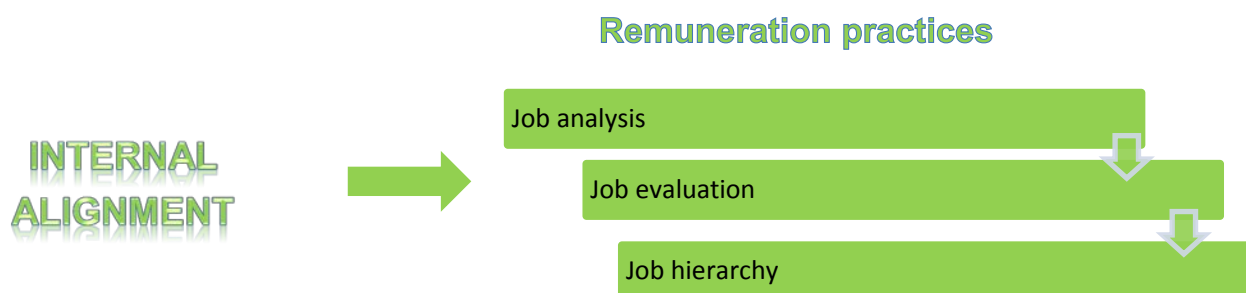


## 2 INTERNAL ALIGNMENT

Internal alignment entails the comparisons between jobs and people skills in terms of their relative contribution to the organisation's business objectives to determine pay differences.

For example, employees at a new retail shop in Phelindaba work different shifts, in different positions, and with different qualifications and skills. However, come pay day, their salaries are the same. Do you think there is fairness in this retail shop's pay system? In this section we will look at how organisations determine their employees' pay.

**FIGURE 3.2: INTERNAL ALIGNMENT**



**Source:** Coetzee et al (2016)

The first step in designing a remuneration system is internal alignment. Internal alignment or internal equity refers to the pay relationship among different job/skills/competencies within a single organisation. It involves establishing equal pay for jobs of equal worth and acceptable pay differentials for jobs of unequal worth (Milkovich, Newman & Gerhart 2011).



**Study section 3.2 (Internal alignment) in chapter 3 of the prescribed book.**



**Click on the following link for information about how to establish fair pay with internal equity:**

<https://youtu.be/tFREjF-R4es?t=110>

After you have studied this section in the prescribed book, you will realise that employees will perceive their pay to be equitable if it is fair in relation to the pay received by other employees. In other words, employees assess their current situation by evaluating how much they are paid for their services relative to the effort and skill performed by other employees and the pay other employees receive. Internal alignment is achieved when remuneration levels are applied consistently, both horizontally and vertically, across an organisation. You must have also noticed the negative consequences that could result if internal alignment does not exist within an organisation.

After you have studied this section in the prescribed book and understand what internal alignment is, you can complete activity 3.1.



### Activity 3.1

Compare the following two payslips and then answer the question that follows.

ITIRELENG HOSPITAL			
PAYSLIP			
Employee: Lerato Moletlane		Pay Period: January 2017	
ID Number: 740211 0276 083		Pay Cycle: Monthly	
Occupation: Nurse		Bank Details: Mosasa Bank	
Tax Number: 20903456			
Earnings	Amount	Deductions	Amount
Basic Salary	9567.00	Taxation	1500.00
		UIF	500.00
		Other	1220.00
		Total Deductions	3220.00
Gross Earnings	9567.00		
		Net Salary Transferred	6347.00

ITIRELENG HOSPITAL			
PAYSLIP			
Employee: Joel Masemola		Pay Period: January 2017	
ID Number: 600202 0873 082		Pay Cycle: Monthly	
Occupation: Porter		Bank Details: Nape Bank	
Tax Number: 21542897			
Earnings	Amount	Deductions	Amount
Basic Salary	5000.00	Taxation	500.00
		UIF	350.00
		Total Deductions	850.00
Gross Earnings	5000.00		
		Net Salary Transferred	4150.00

**Question:** Does internal alignment exist when comparing the two payslips? Substantiate your answer by referring to what internal alignment means and the differences in the payslips.



### Feedback

To answer this question you need to understand what internal alignment is, and indicate whether internal alignment exists or not when comparing the two payslips.

Most of you would agree that there appears to be internal alignment because nurses should be paid more than porters. Nurses contribute more to patient care, which is the core activity of hospitals and thus their work could be regarded as more important. To achieve internal consistency, organisations

employees must believe that all jobs are paid what they are worth. In other words, they must be confident that pay rates reflect the overall importance of each person's job to the success of the organisation. To make employees understand the value of their jobs, employers must use job analysis and job evaluation.

Now that you understand what internal alignment is, you need to know what practices organisations use to achieve internal alignment. Organisations need to first conduct job analysis and job evaluation and then a job hierarchy.

## 2.1 Job analysis



**Click on the following link for more information about what job analysis entails:**

<https://youtu.be/TPWtAL93FuM?t=287>

Jobs are the basic units of an organisation's structure. The organisation must therefore have a systematic way of determining which tasks and functions should be grouped into jobs and how these jobs relate to one another. Job analysis is regarded as the foundation of many human resource management functions.

In terms of remuneration, job analysis has two critical uses, namely:

1. It documents similarities and differences in the content of the job and thus helps to determine job worth
2. It establishes an internally rational and aligned job structure to which a pay structure can be attached.

Figure 3.3 in the prescribed book illustrates the process of job analysis and includes the functions for which it is used.



**Study section 3.5.1 (Job analysis) in chapter 3 of the prescribed book.**

After studying section 3.5.1 you should realise that job analysis produces information for writing job descriptions and job specifications. Job descriptions describe the tasks, duties and the responsibilities that the individual will be performing and job specifications specify the characteristics, experience, knowledge, qualifications, and skills the individual must possess to perform the job.

Study the next section about the importance of job analysis and complete the activity that follows.

### Importance of job analysis

Job analysis forms the cornerstone of all HR functions and the information obtained is the basis for several interrelated HR management activities. An internal structure based on job-related information provides both managers and employees with work-related rationale for pay differences. Employees who understand this rationale can see where their work fits into the bigger picture and can direct their behaviour toward organisational objectives. Job analysis data also helps managers to defend their pay or staffing decisions when challenged.

HR managers will use information obtained through a job analysis to develop job descriptions and job specifications. These documents, in turn will be used to perform and enhance the various HR functions such as the development of performance appraisal criteria or the content of training courses. The ultimate purpose of job analysis is to improve organisational performance and productivity.



### Activity 3.2

---

You have recently started your own remuneration consulting practice and, due to your increased workload, you decided to appoint a secretary to assist with your scheduling, administration, and some general office duties. In order to ensure that you appoint the right person, you have decided to conduct a job analysis.

1. Write down exactly what this job entails (the activities, duties and responsibilities involved).
2. Which type of skills, knowledge, abilities, qualifications and experience are essential for a person to be able to do this job?



#### Feedback

Have you managed to identify the tasks and duties of a secretary? Here are some helpful tips:

- Answer telephone, provide information and take messages
- Arrange conferences and meetings
- Make travel and accommodation reservations
- Prepare/type correspondence, reports and documents
- Set up and maintain a filing system
- Operate office equipment
- Order stationery and other office equipment

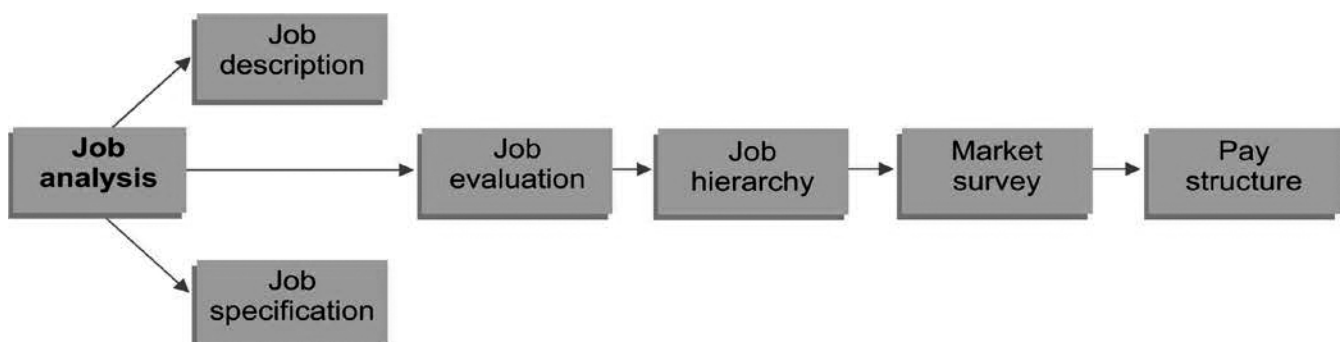
#### Skills, knowledge, abilities, qualification and experience required:

- Grade 12 certificate with English and Computer Literacy as subjects
- Good communication skills
- Drivers' license
- Sound office management skills

You have just done a “mini” job analysis. You have identified the tasks and activities of a job as well as the type of person who would be able to do this job. This is basically what a job analysis involves.

The following figure indicates the interrelationship between job analysis and remuneration.

**Figure 3.2:** The interrelationship of job analysis with remuneration





### Activity 3.3

---

Read the following scenario involving Thabaneng Inc. and answer the question that follows.

You have recently been appointed as the HR manager of Thabaneng Inc. which specialises in manufacturing computer equipment. The managing director, Leeto Sereto, took the company over from the previous owners a year ago and all the HR practices have remained unchanged since then. Thabaneng Inc. is forecasting growth over the next 12 months and you have been tasked to appoint 15 engineers. The previous HR department did not have any job descriptions as the process of job analysis was seen as “too expensive” and the previous owners did not see the benefits or purpose of a job analysis. You believe that the process of job analysis forms the basis of all HR activities and that it is the starting point that supports all the other HR functions as referred to in figure 3.3 in the prescribed book.

**Question:** How does job analysis assist in ensuring that internal alignment exists within the company?



### Feedback

As you will have noted from the discussions, job analysis forms the cornerstone of all other HR functions as it ensures that all HR activities performed within an organisation are job related. Proper recruitment and selection can be carried out by using the job data obtained from job descriptions and job specifications. Job-related training needs can be identified by comparing employees' existing knowledge and skills with the requirements of the job as outlined in the job description. Performance gaps can be identified by reviewing performance of employees and comparing it with the tasks and responsibilities as outlined in the job description. Performance goals and objectives can be set and monitored according to the tasks and responsibilities outlined in the job analysis. A detailed job analysis plays a major role in the defence of employment practices (e.g. interviews, test and performance appraisal systems) that might be challenged. Furthermore, an internal structure based on job-related information provides both managers and employees a work-related rationale for pay differences.

## 2.2 Job evaluation

In all organisations, managers have expectations that they will be able to recruit and retain appropriately skilled employees who are able to perform the tasks and responsibilities outlined in their job descriptions. Employees want to be paid at levels that are fair and equitable in comparison to other jobs in the organisation and in the marketplace. Job evaluation can increase the capacity of organisations to recruit and retain qualified employees at competitive pay rates. At the same time proper job evaluation will ensure that the pay offered by organisations is affordable to the organisation. Job evaluation ensures that both management and employees will have the perception that remuneration is fair and equitable. A **job hierarchy** can be created after the job evaluation process has been concluded. (Refer to the prescribed book for a definition of a job hierarchy).



**Study sections 3.5.2 (Job evaluation) and 3.5.3 (Job hierarchy) in chapter 3 of the prescribed book.**

---

Refer to the prescribed book for a definition of a job evaluation. The primary purpose of a job evaluation is to establish a logical hierarchy of jobs to which a fair and equitable pay structure may be attached. Job evaluation thus refers to *internal equity*.

Many pay structures have evolved over time and it can be difficult for managers to justify why one job is graded higher than another or why it is better paid. A job evaluation system is a way of systematically assessing individual jobs objectively while avoiding prejudice or discrimination.

Job evaluation methods enable trained and experienced staff to judge the importance of one job relative to others. It does not directly determine pay levels, but will establish the basis for an internal ranking of jobs. In addition to the job evaluation method discussed in the prescribed book, three major job evaluations methods are used in South Africa (Swanepoel et al 2008:490-494). They are:

- **Paterson method**

The Paterson method focuses on the

- i. Level of complexity
- ii. Decisions required from the job incumbents.

- **Peromnes system**

The Peromnes system focuses on the following:

- i. Problem solving
- ii. Consequences of judgements
- iii. Pressure of work
- iv. Knowledge
- v. Job impact
- vi. Comprehension
- vii. Educational qualification required in the post
- viii. Subsequent training/experience required

- **Hay guide chart method**

The Hay guide charts method focuses on the following:

- i. Know how
- ii. Problem solving
- iii. Accountability



**Click on the following link to learn more about what job evaluation involves:**

<https://youtu.be/8jfs3kH0Yho?t=168>

After studying sections 3.5.2 and 3.5.3 in the prescribed book, the section about what job evaluation is in this workbook, and watching the video, you should have a clear understanding of what a job evaluation entails. You can now do the following activity.



### Activity 3.4

---

Study the following job descriptions of HR positions and then answer the questions that follow.

**HR administrator:** This position is responsible for providing day to day HR administrative support, including handling HR-related queries, administering HR documentation and assisting in the recruitment process.

**HR officer:** This position is responsible for providing support in the various HR functions which include recruitment, staffing, training and development, performance management, and employee counselling.

**HR manager:** This position is responsible for the management/operations of the HR department. The job incumbent will be involved in the day to day operations of all or most aspects of HR and maintaining functions such as employee remuneration, recruitment, personnel policies, and regulatory compliance.

**HR advisor:** This position is responsible for providing HR advice and the delivery of a full range of HR services. These services include consultation and advice on areas such as recruitment and selection, salary and benefit administration, performance management, employee relations issues, learning and development activities, and job design and evaluation.

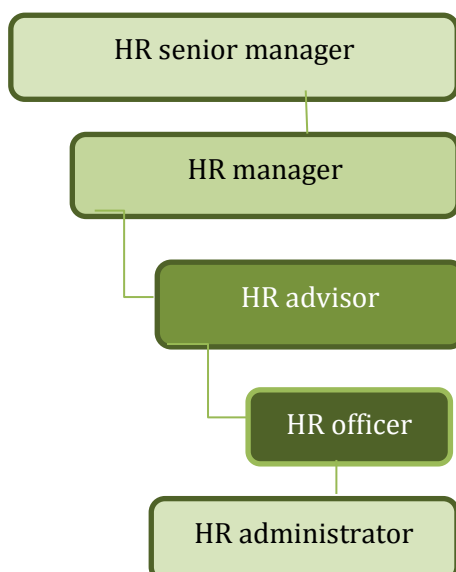
**HR senior manager:** This position is responsible for providing guidance and expertise in terms of the HR function with support from the wider HR team. The job incumbent will be involved in developing the business from an HR perspective, defining the HR strategy, working closely with business or line managers, as well as identifying and implementing HR policies and systems.

1. How would you rank the positions in order of importance? Include a job hierarchy in your answer and provide reasons for ranking.
2. Which positions would be ranked higher, the HR senior manager or HR advisor and why?



### Feedback

1. A possible hierarchy could be as follows:



2. The HR senior manager is the most senior position in the HR function, responsible for guidance and expertise in the HR function and involved in defining the HR strategy. He or she is responsible for overseeing the HR function and ensuring that strategic decisions are executed. On the other hand, the HR advisor is responsible for the delivery of a full range of HR services. He or she is therefore responsible for the execution of HR functions.

### 3 SUMMARY

This workbook introduced you to the importance of internal alignment within an organisation and the important roles that job analysis and job evaluation play in establishing an equitable and fair pay structure. In the next workbook, we will discuss external competitiveness (the second building block of the remuneration framework) which refers to how employees from other comparable organisations are paid.

### 4 SELF-ASSESSMENT



You will recall that in the preface I mentioned that I will be following a different approach in this module. Self-assessment questions will therefore be provided at the **end of each topic** and not at the end of each workbook. The purpose of this is to facilitate an integrated assessment approach. This will enable you to gain a better understanding of how all the theory in each topic fits together. Self-assessment questions on Topic 2 will be provided at the end of workbook 07. These questions will cover the theory you have learnt in workbooks 03 to 07.





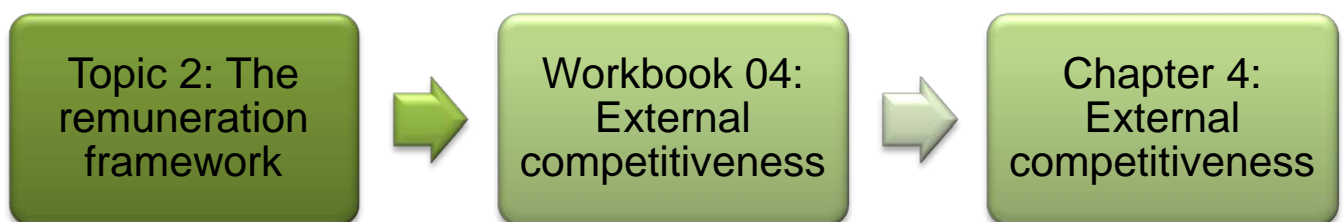
## WORKBOOK 04

### External competitiveness

Contents		Pages
1	Introduction	50
2	External competitiveness	51
3	Salary surveys	51
4	Consolidation	53
5	Remuneration survey concepts	55
6	Summary	56
7	Self-assessment	57



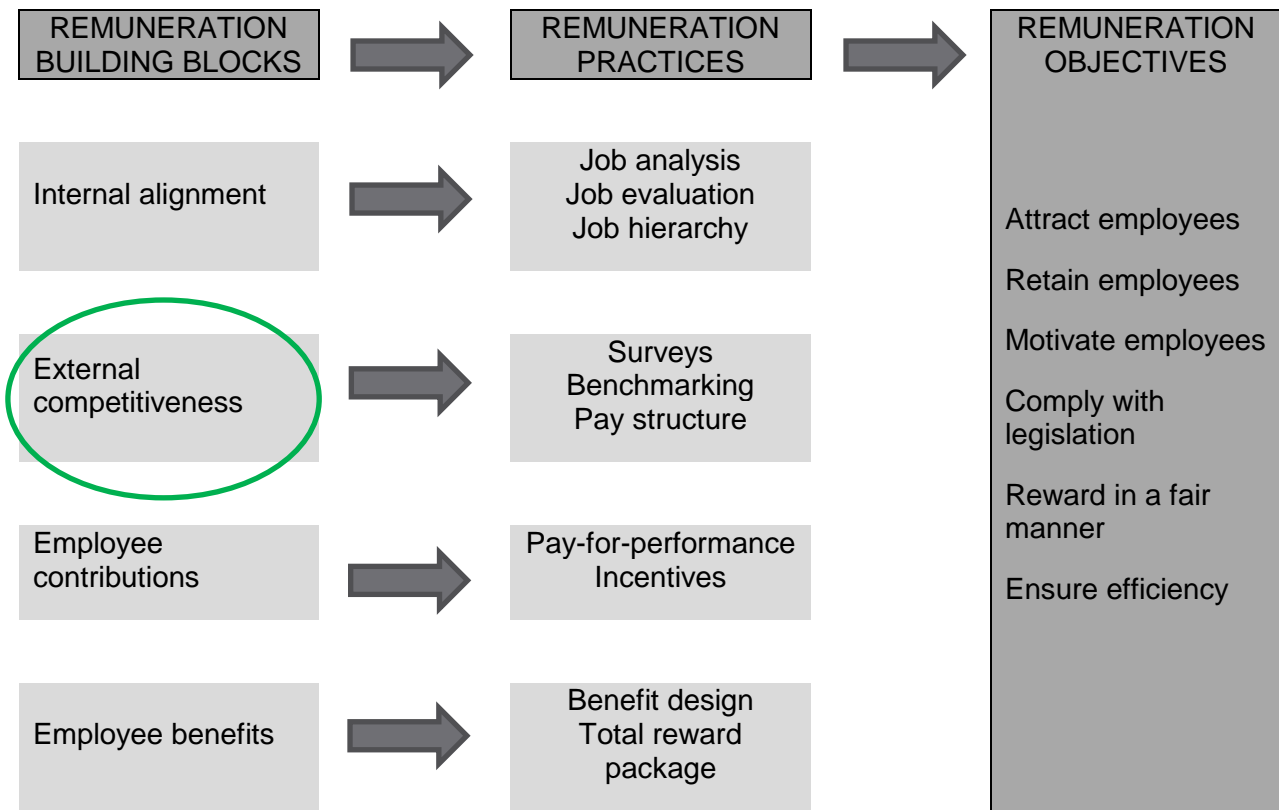
The aim of this schematic representation is to give you an indication of where you are in the process of working through the study material. You are now busy with workbook 04 of topic 2.



# 1 INTRODUCTION

In workbook 04 I am going to focus on external competitiveness which is the second building block of the remuneration framework. You will recall that we did internal alignment in the previous workbook which is the first building block of remuneration. This workbook will cover salary surveys, statistics, and definitions, and discuss job matching. Market data obtained from salary surveys creates the foundation for the development of a competitive pay structure. Just to provide you with a bird's eye view, the highlighted block indicates what you will study in this workbook and how it links to the remuneration framework.

**FIGURE 4.1: REMUNERATION FRAMEWORK**



Source: Adapted from Milkovich, Newman and Gerhart (2014), cited in Coetzee et al (2016) **Key**

## concepts



**The key concepts in this workbook are the following:**

<ul style="list-style-type: none"> <li>• Salary survey</li> <li>• Competitive ratio</li> <li>• Job matching</li> <li>• External competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>• Mean</li> <li>• Mode</li> <li>• Median</li> </ul>
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## 2 EXTERNAL COMPETITIVENESS

Employees within an organisation compare their salaries to one another, but they also compare their remuneration to those of employees working in similar positions in other organisations. They want to be certain that their pay is competitive with employees outside the organisation. For example, Maria works as a typist for Mmanteku Engineering; her friend Salome, who also works as a typist, has just informed her that she received a 7% salary increase. After doing her calculations, Maria realised that Salome earns more than she is earning. What do you think Maria will do? Do you think Maria's employer knows what other typists are earning out there?



**Study section 4.2 (What is meant by external competitiveness) in chapter 4 of the prescribed book.**

After studying this section in the prescribed book you will realise that external competitiveness involves comparing the total remuneration package with those offered by competing organisations. You should also realise that external competitiveness plays a crucial role in attracting and retaining competent employees.

If you are sure you understand what is meant by external competitiveness, proceed to activity 4.1.



### Activity 4.1

With reference to the scenario in section 2 about Maria and Salome, would you advise Maria's employer to reconsider the external competitiveness of the remuneration packages it offers? Support your answer.



### **Feedback**

Most of you will advise Maria's employer to make sure that the remuneration offered competes favourably with remuneration offered by comparable organisations in the market. In answering this question you had to highlight the importance of Maria's employer paying salaries that are externally competitive. Paying competitive salaries will ensure that employees remain with the organisation and do not resign because they could possibly earn better salaries elsewhere. Paying competitive salaries will also assist the organisation in attracting top talent as the organisation can attract sought-after applicants by paying lucrative packages.

Now that you know what external competitiveness is, we can look at the method or procedure that employers use to compare employees' salaries with the salaries of employees working at competing organisations.

## 3 SALARY SURVEYS

Before we address the reason for using salary surveys, let us first look at **what** a survey is.

A survey is the systematic process of collecting pay-related data and making judgements about the compensation paid by employers (Milkovich & Newman 2010:212).

Organisations determine the pay rates paid by other employers by means of a salary survey. Organisations can then decide on whether to pay equal, below or above the market rate, depending on a number of factors.



**Study section 4.5 (Remuneration surveys) in chapter 4 of the prescribed book.**

The following are the most important purposes of salary surveys (Milkovich & Newman 2008):

- **To adjust pay level**

Organisations regularly make adjustments to employees' pay. These adjustments can be based on the overall movement of pay rates by competitors for similar positions. Adjustments can also be made based on performance and the organisation's ability to pay.

- **To adjust pay mix**

It is increasingly important for organisations to establish information on what competitors pay in terms of total remuneration, the mix of pay they use (e.g. base pay, bonus, benefits), and the costs of various forms of pay.

- **To adjust pay structure and analyse pay-related problems**

Employers use salary surveys to validate their own job evaluation results. For example, job evaluation may place purchasing assistant jobs at the same level in the job structure as some secretarial jobs. However, if the market shows vastly different pay rates for the two types of work, most employers will recheck their evaluation process to see whether the jobs have been properly evaluated. Some may even establish a separate structure for different types of work. Thus, the job structure that results from internal job evaluation may not match competitors' pay structures in the external market. Reconciling these two pay structures can be a problem. Accurate market data is increasingly important as organisations are increasingly moving to more generic work descriptions that focus on the person's skill as well as on the job.

- **To estimate the labour costs of market competitors' products/services**

Increasingly, survey data is used as part of employers' broader efforts to gather "competitive intelligence". To better understand how competitors achieve their market share, companies are also examining competitors' pay practices.



For more information on how companies conduct remuneration surveys, click on the following link: <https://youtu.be/5W4nKoPhYDs?t=69>

After studying this section and watching the video, you should realise the importance of using salary surveys for benchmarking jobs.



## Activity 4.2

Read the following case study and answer the questions that follow:

### Tsela Tshweu Travel LTD

TTT is a travel agency operating in an increasingly competitive business environment. Through its retail outlets, it sells its own package tours on which specialist tour operators earn commission. The outlets each employ a team of sales consultants. The staffs are paid fairly low basic salaries compared with other travel agency consultants and the senior management has not been able to raise basic pay by more than the inflation rate for many years, as the profit margins on the business are very tight and competition in the market is fierce.

The sales consultants qualify for non-financial rewards in the form of free exotic holidays for achieving a high level of sales over the previous quarter. The other main benefit is discounts on the company's holidays and flights of about 50% on the brochure price. However, the company has a severe staff turnover problem. Each year after the staff has taken their discounted holidays, the turnover rises dramatically.

Adapted from: Wright, Angela. 2006. Reward Management in Context. The Cromwell Press., Wiltshire, p 214.

1. Do you think that Tsela Tshweu Travel should use a salary survey to address its turnover problem?
2. Why do companies use salary surveys?
3. How will Tsela Tshweu Travel benefit from the information obtained by a salary survey? Refer to the reasons/purposes of salary surveys and substantiate your answer by providing examples from the case study.

### Feedback

You should have answered this question by firstly indicating why companies use salary surveys. You could have discussed the reasons/purposes of salary surveys, as well as their benefits. Organisations use salary surveys to determine their external competitiveness by taking a look at the pay rate in the labour market. Tsela Tshweu Travel will benefit from a salary survey as it will assist in understanding its competitors' pay levels as well as their total remuneration packages. This information will enable the company to make informed remunerations decisions and remuneration adjustments if/where necessary.



After finding or creating the needed surveys, the most critical aspect of a salary survey comes into play namely "**consolidation**".

## 4 CONSOLIDATION

Let us first start by discussing what consolidation is.

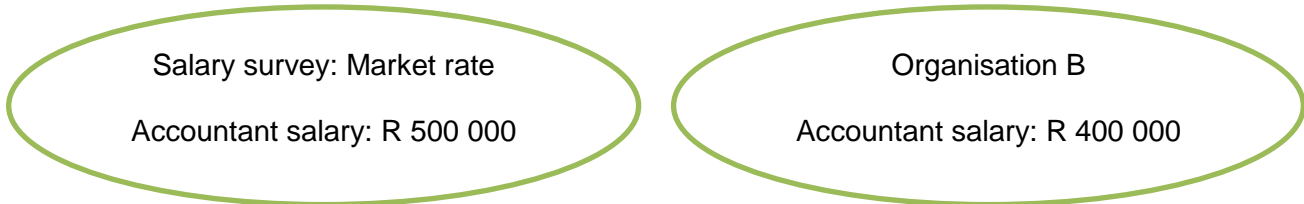
Consolidation is the most important component of a salary survey, because it is where remuneration practitioners "match apples with apples" to ensure they are comparing salaries of comparable jobs.



## Study section 4.6 (Consolidation) in chapter 4 of the prescribed book

After studying section 4.6 in the prescribed book you should understand what consolidation is. Now let us look at the following example of consolidation:

Compare the salary level of an accountant employed by Organisation B with the market pay level of an accountant.



Consolidation involves comparing salary levels of comparable jobs. Without taking any other factors into consideration, it appears as if Organisation B is paying below the market rate. A possible reason might be because the accountant in organisation B has far less responsibilities than the surveyed accountant job. This could explain why the pay rate in the market is more than the pay rate offered by Organisation B. If this is the case, the salary level of the accountant at Organisation B cannot be adjusted to the market pay rate because the jobs are not comparable in terms of responsibilities; hence the difference in pay.

For a survey analysis to be valid, it is important to remember that **jobs must be matched on job content** and **not job titles** (Worldatwork 2007:169). It is important that jobs and the work people do should be matched, and not the people themselves. An underlying assumption is that the incumbents are performing the job at a solid, competent level and are not beginners or superstars. Note that a valid match means that the job essentially has the same function as the survey job, and that the incumbent performs most, if not all of, the typical duties in the job surveyed. If the comparison is not obvious, then it should not be forced into being similar. Also, if the incumbent matches more than one job, select the job in which the job incumbent spends the most time.

Complete activity 4.3 before continuing with the next section.



### Activity 4.3

You have just been recruited as the remuneration specialist for an international motor manufacturer who wants to open a plant in Gauteng, South Africa. To gain a competitive advantage, the executive team wishes to position the company in line with the industry. Your task is to provide the executive team with a salary survey.

Discuss the factors that you would take into consideration when conducting the salary survey. Substantiate your answer by providing examples.



### Feedback

The factor that you must consider is consolidation. First you must discuss consolidation and how it assists remuneration surveys. For example, using consolidation will enable you to compare the content of the job you want the new employees to do

with the content of jobs in other motor manufacturing organisations. You will not compare the job titles, but the content of the jobs.

In the next section we will discuss remuneration survey concepts. Remuneration experts should familiarise themselves with these statistical terms otherwise they would not be able to interpret the findings of a survey. They should thus know what is meant by concepts such as the market pay line, median, average, and midpoint.

## 5 REMUNERATION SURVEY CONCEPTS

A salary survey is relatively easy to use and to interpret, but it is important to understand some key concepts before trying to read and interpret the data. These definitions are some of the basic statistics and tools required to analyse the data.

### 5.1 Definitions

Most salary surveys use at least one of the following to give some idea of the average or “typical” salary for a job (Bussin 2012):

**Comparative ratio** (or compa-ratio) is a statistic that expresses the relationship between an incumbent's salary and the reference salary (commonly the midpoint of the pay scale), or between the midpoint and market average. You need to compare it to what your organisation is currently paying for the same position.

The formula to calculate the compa-ratio:

$$\frac{\text{Employee salary}}{\text{Midpoint (or own chosen market reference salary)}} \times 100$$

Other statistics are the mean, median and the mode.

**Mean:** The average rate.

**Median:** The middle number of a particular range placed in rank order.

**Mode:** The most commonly occurring rate.

How to calculate the mean, median and the mode by using the following figures:

24 8 60 8 17 29 35 43 29

**Mean:** add all the numbers = 253

: divide by the number of values (9)

$$253 / 9$$

$$= 28.1$$

**Median:** arrange the numbers in order from lowest to highest

$$8 + 8 + 17 + 24 + 29 + 29 + 35 + 43 + 60$$

The one in the middle is the median

$$= 29$$

This is how we calculate the median when the data set is even:

8 8 17 24 29 29 35 43 60 62

$$\text{Add the two middle numbers } 29 + 29 = 58$$

$$58/2 = 29$$

The median = 29

**Mode:** The number that appears the most

$$= 29$$



For more information about calculating the mean, mode and the median click on the following link:

[https://youtu.be/IV\\_m\\_uZOUgl?t=6](https://youtu.be/IV_m_uZOUgl?t=6)

If you are sure that you understand the definitions and the basic statistics used in any salary survey, you may proceed with activity 4.4.



### Activity 4.4

Complete the following table by calculating the mean, mode, median and compa-ratio.

<b>Mean</b>	R 210 000; R200 000; R 250 000; R245 000; R 335 000	What is the mean in this range? R _____
<b>Median</b>	R 360 000; R 300 000; R 310 000; R 380 000; R 350 000	What is the median in this range? R _____
<b>Mode</b>	13 employees are getting R 12 000 per month 14 employees are getting R 13 000 per month 10 employees are getting R 14 000 per month	What is the mode in this range? R _____
<b>Compa-ratio</b>	An employer at your organisation receives a salary of R20 000 per month. A salary survey indicates that employees elsewhere, but in the same position, receive a salary of R32 000 per month.	Is the employee at your organisation being underpaid or overpaid? _____

### Feedback



#### Mean:

Remember, the mean is the average of all the salaries. In order to calculate the mean you needed to add the individual salaries together and divide it by the number of salaries listed. In this case, the mean is  $R\ 210\ 000 + R\ 200\ 000 + R\ 250\ 000 + R\ 245\ 000 + R\ 335\ 000 / 5 = R\ 248\ 000$ .

#### Median:

In a list such as this one containing an odd number of numbers, the median refers to the middle number, so you should first rewrite the values in numerical order (from lowest to highest). Thus R300 000; R310 000; **R350 000**; R360 000; R380 000. The middle number is R350 000.

#### Mode:

The mode is determined by observing which value appears most often – in this case R13 000.

#### Compa-ratio:

For the compa-ratio you needed to take the salary of an employee in your organisation, divide it by the market salary and multiply by 100. The compa-ratio in this example works out to be 63%, meaning that the employee concerned is being paid less than the market salary for the same position.

## 6 SUMMARY

This workbook introduced you to the setting of pay levels by using salary surveys to match the positions in your organisations to similar positions in the market. We further discussed how consolidation makes it easier to know the worth of a job compared to similar jobs in the market. We concluded the workbook with the statistical terms and definitions you need to understand in order to



be able to read and interpret a salary survey. In the next workbook we will discuss the development of a pay structure which forms part of the third building block (external competitiveness) of the remuneration framework.

## 7 SELF-ASSESSMENT



You will recall that in the preface I mentioned that I will be following a different approach in this module. Self-assessment questions will therefore be provided at the **end of each topic** and not at the end of each workbook. The purpose of this is to facilitate an integrated assessment approach. This will enable you to gain a better understanding of how all the theory in each topic fits together. Self-assessment questions on Topic 2 will be provided at the end of workbook 07. These questions will cover the theory you have learnt in workbooks 03 to 07.



# HRM2603

## Compensation Practices

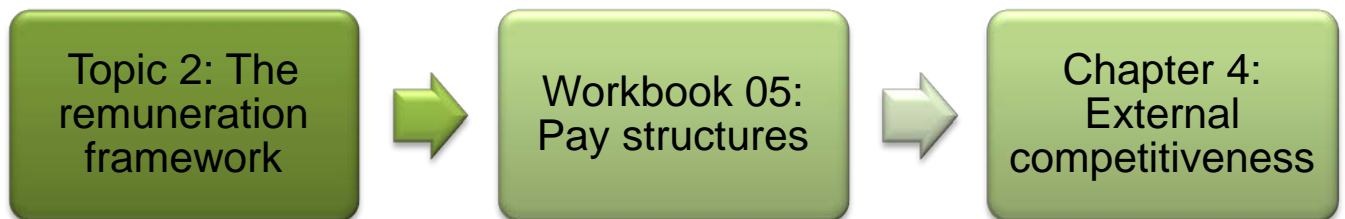
### WORKBOOK 05

#### Pay structures

Contents		Pages
1	Introduction	59
2	Understanding what a pay structure is and pay structure terminology	60
3	Purpose of a pay structure	62
4	Factors affecting the design of a pay structure	63
5	Developing a pay structure	65
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8	Self-assessment	67



The aim of this schematic representation is to give you an indication of where you are in the process of working through the study material. You are now busy with workbook 05 of topic 2.

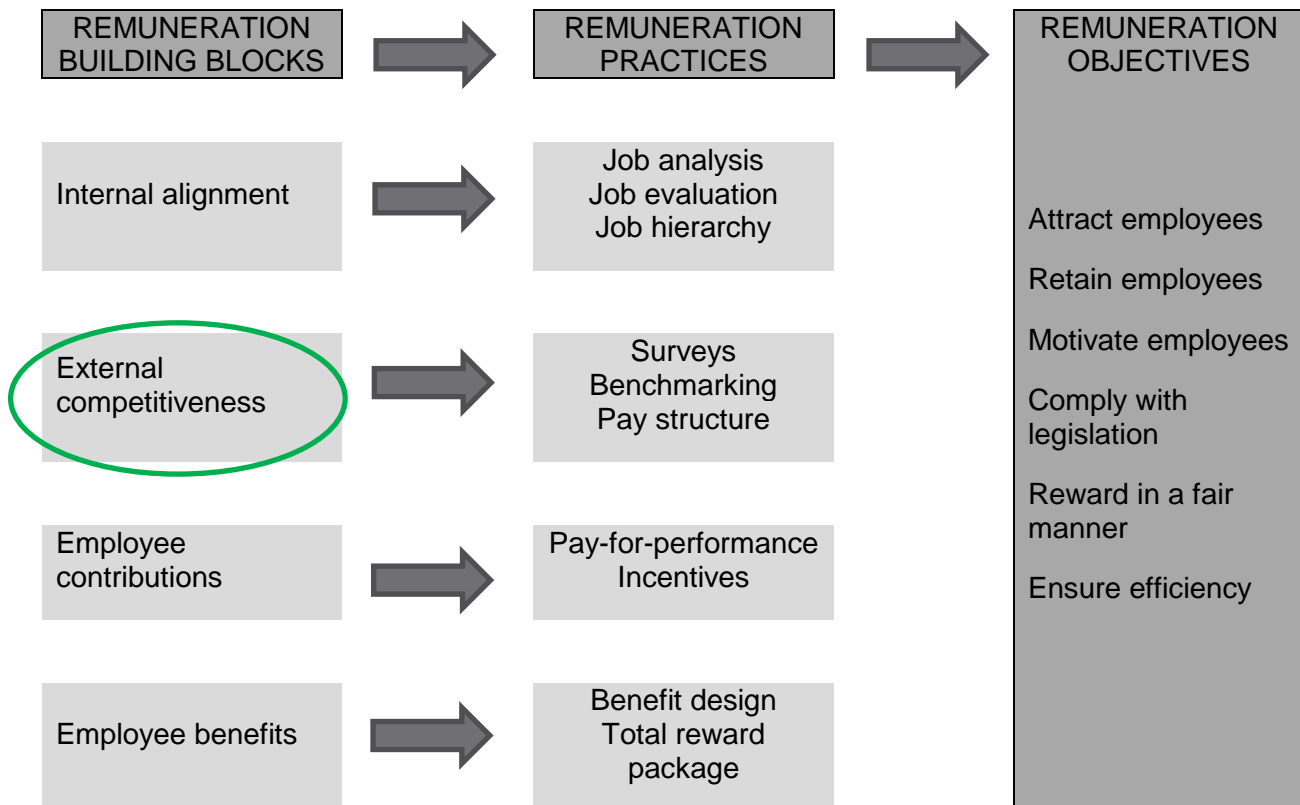


# 1 INTRODUCTION

In the previous study unit you learnt about market surveys. Once an organisation has established internal alignment and external competitiveness, the last step in designing a compensation system is to develop a pay structure. You will be learning about pay structures in this workbook.

A pay structure is a strong indication of an employee's value in the organisation. It helps to analyse the employee's role and status in the organisation and it provides for fair treatment of all employees. In this workbook we take a look at the importance and role of a pay structure. We are still busy with building block number three, namely external competitiveness.

**FIGURE 5.1: REMUNERATION FRAMEWORK**



Source: Adapted from Milkovich, Newman and Gerhart (2014), cited in Coetzee et al (2016)

## Key concepts



**The key concepts in this workbook are the following:**

<ul style="list-style-type: none"> <li>• Pay structure</li> <li>• Pay slope</li> <li>• Quartile</li> <li>• Green-circle employee</li> <li>• Red-circle employee</li> </ul>	<ul style="list-style-type: none"> <li>• Pay ratio</li> <li>• Pay range</li> <li>• Midpoint</li> <li>• Pay overlap</li> </ul>
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## 2 UNDERSTANDING WHAT A PAY STRUCTURE IS AND PAY STRUCTURE TERMINOLOGY

To understand what a pay structure is and the related terminology, you need to study the information from the workbook and the prescribed book.

Let's first define what a pay structure is.

A pay structure is the *array of pay rates for different jobs within a single organisation; they focus attention on differential remuneration paid for work of unequal worth.*

*(Milkovich et al 2011)*



**Study section 4.9. (Pay structure) of chapter 4 in the prescribed book.**

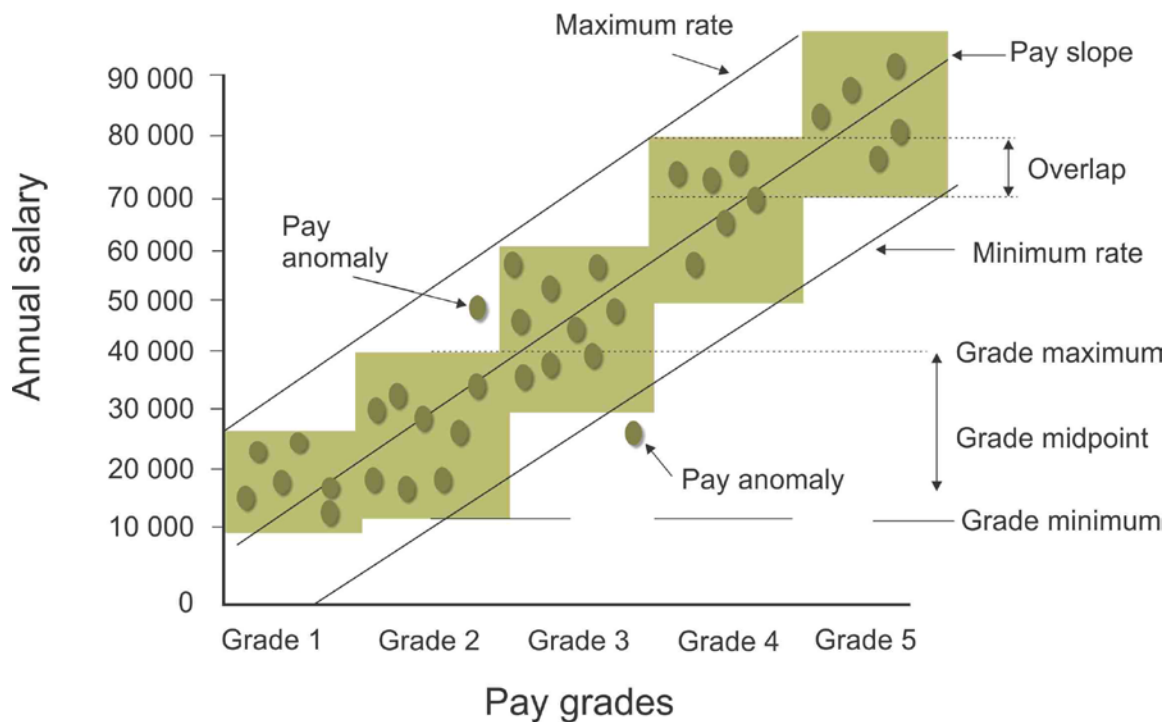
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After studying this section in the prescribed book, you will understand that a pay structure lays out different pay levels for different jobs of unequal worth, skills, qualifications, working conditions, and so forth.

Let's take for example an engineer, accountant, floor manager, administrator, and cleaning lady. They all work for Boikano Engineering but their jobs require different skills, knowledge, and qualification, they have different responsibilities, and they usually have different working schedules. This is where pay structure comes in to determine their pay rates. We all know that Thabo who works as an engineer will not be happy when he finds out the he earns the same as the floor manager, he might even consider resigning. The pay structure should ensure that Thabo is retained.

Pay structures assign different pay rates for jobs of unequal worth and provide the framework for recognising different individual contributions (Martocchio 2011:182). Pay structures provide scope for pay progression in accordance with performance, competence, contribution, or services. The pay structure is also a medium through which the organisation can communicate the pay opportunities available to employees. Pay structures also have strategic value. Well-designed structures should promote the retention of valued employees.

The development of a pay structure is determined by considerations of the organisation's pay slope, the number of pay grades, the range of each pay grade and the degree of overlap between pay grades. The meaning of each of these terms are illustrated in figure 5.1 and discussed in the prescribed book.



**Figure 5.1:** A basic graded pay structure

Source: Swanepoel et al (2008:497)

You will note that a pay structure comprises different grades (for example A, B, C and D) to which different pay ranges are attached. Table 4.3 in the prescribed book provides you with an example of a pay structure.

Within a pay structure there are different pay concepts. You need to know and understand these concepts. After studying the other example of the pay structure in the prescribed book, refer to table 5.1 in the workbook for the definitions of the various pay concepts.

**Table 5.1: Definitions of pay concepts**

Portion of salary	Percentiles	Explanation
Minimum	0P	The lowest salary
Lower quartile	25P	The salary which 75% of salaries fall, when they are ranked in order of size.
Median (Q2) or Midpoint	50P	The salary above and below which 50% of salaries fall, when they are ranked in order of size.
Upper quartile (Q3)	75P	The salary above which 25% of salaries fall, when they are ranked in order of size.
90 <sup>th</sup> percentile (Q4)	90P	The salary above which 10% of salaries fall, when they are ranked in order of size.
Maximum	100P	The highest salary.
Average	N/A	The arithmetic mean of all the numbers.

Source: Bussin (2012:79)

Before you continue with this workbook, you need to have a clear understanding of the terminology of a pay structure.



You do not have to know how to calculate a pay range, midpoint spread, range penetration or pay grade overlap. You also do not have to know the formulas.



**Study section 4.9.1 (Pay structure terminology) of chapter 4 in the prescribed book**

Now that you have studied what a pay structure is and the various terminologies, you will have an opportunity to apply what you have learnt in activity 5.1



### **Activity 5.1**

In your own words, provide a short description of what you understand about the following concepts:

Pay structure terminology	Description
Pay structure	
Quartile	
Pay slope	
Pay overlap	
Pay radio	
Pay grade	



### **Feedback**

You can revisit your prescribed book to answer these questions. The prescribed book explains what a pay structure is. At the beginning of the workbook we provided you with a table with the definition of a quartile. From the table you can draw some conclusions to formulate your own definition of what a quartile is. You can start by explaining what makes up quartiles; it represents a portion of a salary, and is classified in terms of minimum, lower quartile, median and the upper quartile 90<sup>th</sup> percentile. Then you can provide a brief description to explain each.

The following section looks at why organisations have pay structures, as well as at the characteristics of a well-designed pay structure.

## **3 PURPOSE OF A PAY STRUCTURE**

You may ask yourself the question “why do organisation have pay structures?” The answer is quite simple – job grades and pay structures provide justifiable systems and procedures for compensating employees in a fair and just manner. An effective pay structure will reflect the values of the organisation as expressed in the job hierarchy and the pay rates.



**Study section 4.9.2 (The purpose of a pay structure) of chapter 4 in the prescribed book.**

It is important to note that pay structures cannot be the same for all organisations. The pay structure needs to be linked to the HR and business strategy and, therefore it would not be possible to use a general pay structure for all organisations. Let's look at the factors that affect the design of a pay structure in the next section.

## 4 FACTORS AFFECTING THE DESIGN OF A PAY STRUCTURE

The following factors influence the pay structure (Bussin 2012:82):

- **Supply and demand** – the availability of people in the labour market capable of doing the job.
- **The financial position of the organisation or industry** – can the organisation afford to pay the incumbent?
- **Trade unions** – the pay rates agreed upon during a collective agreement between the employer and the trade union.
- **The current salary/wage structure** – how much are other organisations paying for this job?
- **The number of grades from top to bottom.**
- **Market pay structure** – the manner in which the market is structured will influence pay structure.

Consider the following before designing a pay structure:

- Strategic issues such as:
  - Is the structure able to support the organisation's business strategy?
  - Is the structure compatible with the total reward design strategy (including base, incentive and indirect remuneration)?
  - What is the ratio between guaranteed pay and variable pay?
- How competitive are remuneration packages?
- To what extent does the organisation's job and workplace design result in internal equity?
- How much should be budgeted for pay?

If you feel comfortable that you understand what the purpose of a pay structure is and the factors that influence the design of a pay structure, you can complete activity 5.2.



### Activity 5.2

Read the following case study and answer the questions that follow.

**Mashaba Manufacturing** is a large company that was founded in 1945 by Sello Mashaba. Mashaba is located in Port Elizabeth and employs 1 500 people, ranging from cleaners to the corporate executive team. Most of the workforce is made up of semi-skilled labour such as crane operators, press operators, and shipping clerks. Mashaba's product line – manufactured and assembled on site – consists of assorted laboratory items such as blood collection tubes and pharmaceutical stoppers made of various polymers and rubber. Its customers are large pharmaceutical firms that supply various products to hospitals and laboratories. Its market is worldwide, with many of the best customers in Europe and Asia. Thabo Mashaba replaced his father as CEO five years ago.

The senior Mashaba, an entrepreneur with a high school education, had been a traditional manager

who tried to keep his hands on every phase of the operation. Sello Mashaba took pride in Mashaba Manufacturing's reputation for fair pay and satisfied employees. Sello was involved in all aspects of the remuneration plan and he had the final word on pay rates for all employees. He based pay on experience, potential, and how much each employee needed to support his or her family. As a result, Mashaba Manufacturing had low absenteeism and turnover. After Thabo took over, several economic factors began to challenge the company founder's approach to remuneration.

Several new competitors have entered the marketplace. They pay lower wages than Mashaba, so they are more profitable. Key business has been lost because Mashaba had to charge more for its products in order to maintain the remuneration system's above-average pay strategy. At the same time, staff turnover had increased because employees at Mashaba felt they were not being compensated fairly. Rebotile Mahlare, the HR manager, made a point of raising this at a staff meeting.

**Rebotile:** Thabo, I think you're aware that our remuneration structure is seriously out of date. We are paying the highest wages in the industry, but we're steadily losing employees because they don't think they are being paid fairly.

**Thabo:** I know. My father always emphasised that workers would be loyal if we treated them as individuals. He based his pay decisions on how big the family of employees was. Maybe we ended up with too many exceptions to our pay structure.

**Rebotile:** The reality is that most of our competitors are opening plants in third-world countries so that they can keep labour costs down. In order to compete we have to bring our labour costs into line with those of our competition. To do that, we need to re-evaluate the whole pay system. At the same time, we need to find out why our employees think their pay is unfair. I've asked Jerry Wallace, our remuneration director, to review our job evaluation system so that we can pay salaries that are perceived as equitable and competitive within the industry.

### Questions:

1. Identify the factors that have an impact on Mashaba's pay structure. Substantiate your answer by providing examples from the case study.
2. What are some of the considerations that Rebotile, the HR manager, needs to take into account when updating Mashaba's outdated remuneration structure? Substantiate your answer by providing examples from the case study.



### Feedback

1. One of the factors that you should have identified is the current salary/wage structure. New competitors entered the marketplace and paid lower wages than Mashaba. Due to competitors paying lower wages, Mashaba will have to charge more for its products in order to maintain the above-average pay levels of the organisation.
2. As indicated in the case study, and should Mashaba go ahead with reviewing its job evaluation system, the company would then need to conduct a salary survey to establish external equity. By means of the salary survey, the organisation can ensure that its pay structure is in line with the pay structure of its competitors, while still considering the cost thereof.

Now that you know what a pay structure is, we will learn about the development of the pay structure and the factors to consider in the process of developing a pay structure.



## 5 DEVELOPING A PAY STRUCTURE

There are two basic factors to consider when designing and developing pay structures: internal alignment and external competitiveness.

**Internal alignment** deals with comparisons of rewards across different jobs within the same organisation. It addresses the issue of the relative worth of, for example, an engineer versus an accountant working for the same employer. Internal equity pertains to the pay rates of employees doing equal or dissimilar work (Milkovich et al 2011:657). The techniques of job evaluation and pay structuring are used to establish internal alignment.

**External competitiveness** involves comparing the salaries offered by an organisation to the salaries offered by other organisations. Organisations formulate their remuneration strategies by assessing competitors' or industry standards. Organisations set the remuneration packages of their employees in line with the prevailing remuneration packages in the market. This leads to fair treatment of the employees. At times, organisations offer higher remuneration packages to attract and retain the best talent. Achieving external competitiveness requires obtaining information about what other organisations are paying through conducting salary surveys.



**Remember you do not need to study the calculations.**



**Study section 4.11 (developing a pay structure) in chapter 4 of the prescribed book.**

After studying section 4.11 in the prescribed book you should know who should be involved in the development of the pay structure and the steps involved in developing a pay structure. Complete activity 5.3 before proceeding to the next section.



### **Activity 5.3**

Differentiate between pay ranges and grades. Why would you use either, and do pay ranges and grades hinder the achievement of internal equity and external competitiveness?

### **Feedback**



A pay range is the minimum and maximum limit of pay to a certain job. For example, a police officer's salary may range from R20 000 to R30 000, meaning it must not be more than R30 000 and not less than R20 000. It must range between the two amounts. Ranges permit an employer to recognise individual differences, whether they are performance or experience based. Pay grades group different jobs – that are considered substantially equal for pay purposes – together. Grades enhance an employer's ability to move people among jobs within a grade with no change in pay. Their use fosters internal alignment by differentiating pay based on performance or experience differences among employees. They also allow an employer to meet employees' expectations that their pay will increase over time. From an external competitiveness perspective, they act as a control device, setting minimum and maximum levels that an employer is willing to pay for a job.

In the next section we will be learning about the movement through the pay structure, which is the process where employers move employees through various pay levels.

## 6 MOVEMENT THROUGH THE PAY STRUCTURE

Managers may move employees through various pay levels in a pay range based on some or all of the criteria of experience, seniority and performance. Some organisations add further criteria of education or training.

One of the problems often linked with a pay structure that has been revised through job evaluations – and that may require adjustment– is *outliers*. Outliers are employees earning below a range (receiving a low salary) who are “green circled” and have priority raises, as well as those employees earning above a range (receiving a too high salary) who are “red circled” and will have no raises until the range is adjusted to catch up with their current pay level. There is no hard and fast formula to balance the internal alignment of such a pay system. The situation requires judgement and needs appropriate salary administration policies to be in place to deal with individual cases that fall outside standard pay ranges.



**Study section 4.12 (Key issues in designing a pay structure) in chapter 4 of the prescribed book.**

After studying section 4.12 you may complete activity 5.4.



### Activity 5.4

Refer to the case study in activity 5.2. How can internal alignment and external competitiveness assist Mashaba in updating its pay structure?



### Feedback

Internal alignment and external competitiveness are two basic considerations that organisations need to take into account when designing their pay structures. By achieving external competitiveness, Mashaba can ensure that its pay structure is on par with the industry standard; this will ensure that its organisation remains competitive without having to maintain its above-average pay structure. Internal alignment also enables organisations to better manage exceptions within their pay structure and employees will thus perceive pay to be fair.

## 7 SUMMARY

This workbook introduced you to pay structures, pay ranges, and pay grades. It defined how one can progress through the pay range; it also highlighted the importance of meeting internal alignment and external competitiveness prior to designing a pay structure. It concluded with information on how employees could earn higher salaries by advancing through the pay levels within a pay range. In the next workbook we will introduce you to employee benefits which is the fourth step in the remuneration framework.

## 8 SELF-ASSESSMENT



You will recall that in the preface I mentioned that I will be following a different approach in this module. Self-assessment questions will therefore be provided at the **end of each topic** and not at the end of each workbook. The purpose of this is to facilitate an integrated assessment approach. This will enable you to gain a better understanding of how all the theory in each topic fits together. Self-assessment questions on Topic 2 will be provided at the end of workbook 07. These questions will cover the theory you have learnt in workbooks 03 to 07.



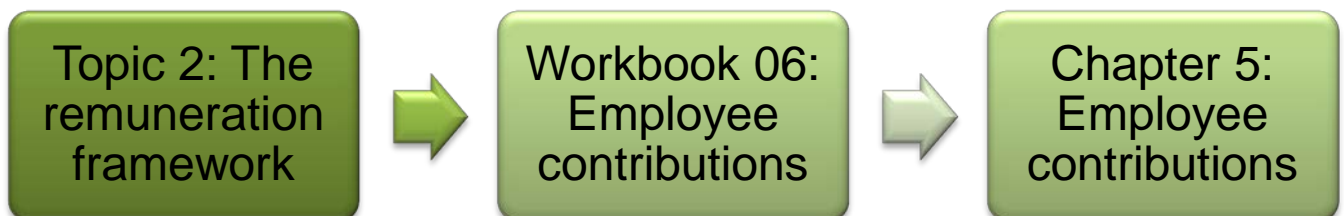
## WORKBOOK 06

### Employee contributions

Contents		Pages
1	Introduction	69
2	Pay-for-performance plans	70
3	Criteria for pay-for-performance plans as a motivator	71
4	Objectives for implementing pay-for-performance plans	72
5	Types of pay-for-performance plans	72
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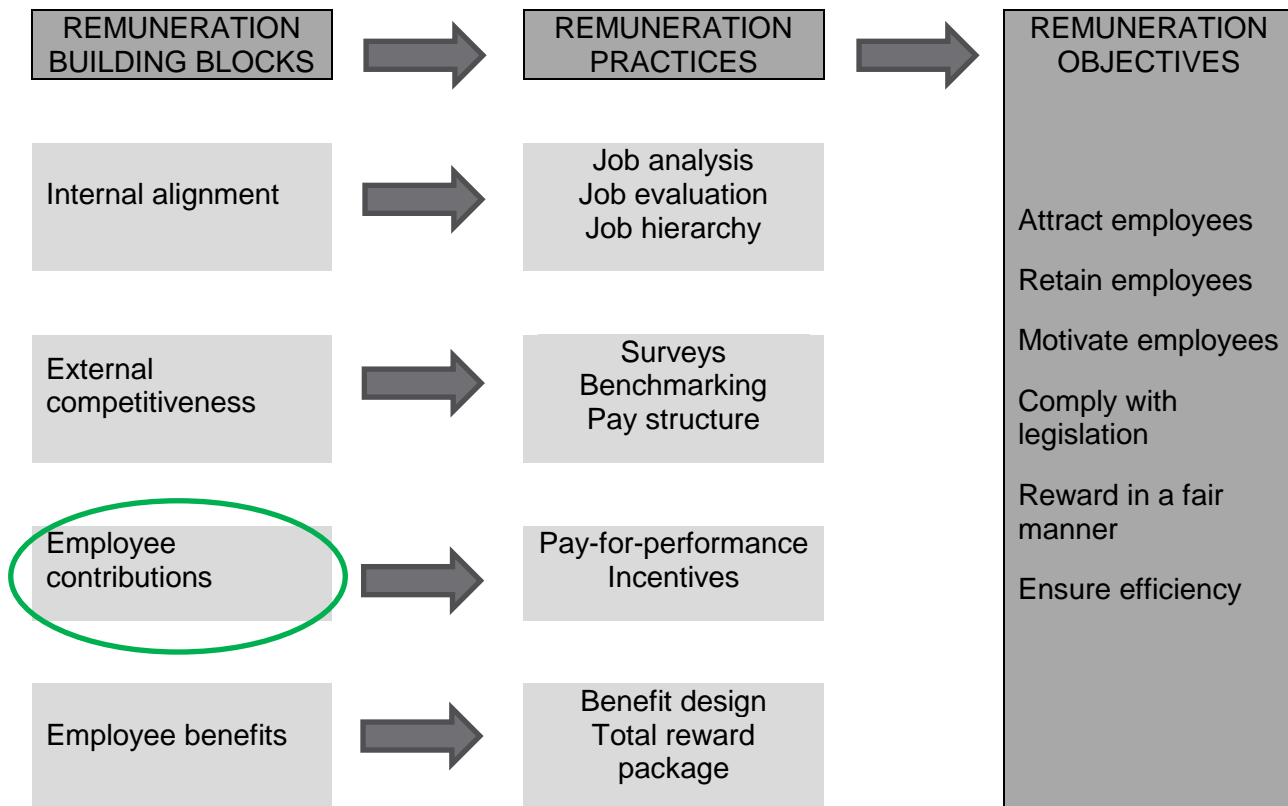
The aim of this schematic representation is to give you an indication of where you are in the process of working through the study material. You are now busy with workbook 06 of topic 2.



# 1 INTRODUCTION

In the previous study unit you learnt about pay structures. I am now moving onto the next remuneration building block namely employee contributions.

**FIGURE 6.1: REMUNERATION FRAMEWORK**



**Source:** Adapted from Milkovich, Newman and Gerhart (2014), cited in Coetzee et al (2016)

At this stage you may ask what employee contributions are? Employee contributions refer to how much emphasis is placed on paying for the performance of individuals who do the same job in the same organisation (Milkovich et al 2011). For example, should Sindi be paid differently from or more than Mokgethwa simply because Sindi performs better or has been with the organisation for a longer period? Should all employees share in the organisation's profits and losses? Should a team of employees (team A) receive special rewards because they outperformed other teams? Employee contributions is the power that an employer has to choose which employee should receive which benefits, why, and how? It might be because of performance and/or seniority. Workbook 06 aims to develop your understanding of why employees are paid differently by means of incentive schemes based on performance. In this workbook we will discuss pay-for-performance, line of sight, skills-based pay, and competency-based pay.

In the previous study unit you learnt about market surveys. Once an organisation has established internal alignment and external competitiveness, the last step in designing a compensation system is to develop a pay structure. You will be learning about pay structures in this workbook.

A pay structure is a strong indication of an employee's value in the organisation. It helps to analyse the employee's role and status in the organisation and it provides for fair treatment of all employees. In this workbook we take a look at the importance and role of a pay structure. We are still busy with building block number three, namely external competitiveness.

## Key concepts



**The key concepts in this workbook are the following:**

---

<ul style="list-style-type: none"><li>• Pay-for-performance</li><li>• Individual pay-for-performance plans</li><li>• Skills-based pay</li><li>• Organisation-wide pay-for-performance plans</li><li>• Group pay-for-performance plans</li></ul>	<ul style="list-style-type: none"><li>• Competency-based pay</li><li>• Line of sight</li><li>• Merit pay</li><li>• Piece rate plans</li><li>• Commission scheme</li></ul>
---	---

In the next section I introduce pay-for-performance plans. An example of a pay-for-performance-plan is that Maria a sales lady at Mandy's ladies boutique, gets rewarded for selling more clothes than her co-workers. Pay-for-performance plans reward good performance.

## 2 PAY-FOR-PERFORMANCE PLANS

Before we proceed with the discussion of pay-for-performance, let us first define the concepts:

**Pay-for-performance** refers to pay that varies depending on the individual, team, or organisation's performance.

Pay-for-performance is a method of remuneration that links pay progression to an assessment of individual, team, or organisation performance. It is usually measured against pre-agreed objectives. Pay increases awarded through pay-for-performance, as defined here, are normally consolidated into basic pay; although they sometimes involve the payment of non-consolidated cash lump-sums (Eagan 2011).



Click on the following link to understand what pay-for-performance is.

<https://youtu.be/4TIORmNMJXM?t=95>



**Study section 5.1 (Introduction) and section 5.2 (Clarifying the concepts of pay-for-performance) in chapter 5 of the prescribed book.**

After studying the section about pay-for-performance and the relevant sections in the prescribed book, do activity 6.1.



### **Activity 6.1**

---

You just opened a baking business. After two months you realise you need two employees to help with the running of the business. You find Lerato and Khomotso who both told you they love baking. You reach an agreement with both of them that they will work for a salary of R400 per week. The first two weeks the cakes and breads are always fresh on the shelves and customers are happy. During the third week, you realise that they are not as hard working as before and in an attempt to motivate

them, you increase their salaries to R450 per week. Their performance remains the same. You consider replacing them with other employees, but you cannot afford to hire new employees and teach them the job again. Which incentive pay system will you implement to inspire your two employees to improve their performance?

### Feedback



The incentive pay system you will have to implement is pay-for-performance. Pay-for-performance will encourage the employees to increase their performance, because their performance will be linked to their income. The better they perform, the higher the pay they will receive by the end of the month. Pay-for-performance plans allow the pay of employees to change according to performance instead of time worked.

You have just learned what pay-for-performance is; now let us look at the criteria for pay-for-performance plans as a motivator.

## 3 CRITERIA FOR PAY-FOR-PERFORMANCE PLANS AS A MOTIVATOR

The type of scheme chosen should align with employees' *line of sight*. Employees must have a clear indication of the connection between their performance and the incentives that they receive. They should see the direct link between what they do and what they are paid for reaching their goals.

Incentives are types of pay that changes and are generally used to recognise and reward employee contributions towards company productivity, profitability, team work, safety, quality, or some other metric deemed important.



**Study section 5.3 (Criteria for pay-for-performance plans as motivator) and refer to figure 5.2 of chapter 5 in the prescribed book.**



For a definition of line of sight, refer to:

<http://workfamily.sas.upenn.edu/glossary/l/line-sight-definitions>

You have just learned the importance of aligning incentives schemes to employees' objectives and the advantages it has on achieving organisational goals. Now do activity 6.2.



### Activity 6.2

Read the following two scenarios and answer the question that follows.

Bophelo is a remuneration manager at **Dithabeng Accounting**. Every month they have a meeting with employees discussing the objectives of the next month, who achieved that month's objectives, and how well they are progressing in achieving that year's objectives. Those who achieved their objectives are rewarded and the rewards for the next month are discussed and agreed upon. They also discuss the benefits to the organisation for achieving the objectives.

Mmalehu is a remuneration manager at **Mountain Accounting**. She feels very strongly about not wasting time on meetings that are, according to her, useless and time wasters. She feels that the time should be spent better and used by employees to actually do the work. According to Mmalehu employees are paid a salary by the end of the month and that is more than enough to reward employees for their work.

Which of the two organisations will most probably reach its targets? Justify your answer.



### **Feedback**

Most of you will identify Dithabeng Accounting as an organisation that will most probably achieve its objectives. This is due to employees knowing in advance of the incentives payable when achieving a certain goal and the value of the reward. The rewards are directly linked to certain performance criteria and thus provide employees with a line of sight. They can see the direct link between what they do and what they will be paid for reaching their goals. On the other hand, employees at Mountain Accounting are not involved in decision making or informed of the organisation's expectations. They are furthermore not encouraged to improve performance because they would not benefit financially by the improved performance.

## **4 OBJECTIVES FOR IMPLEMENTING PAY-FOR-PERFORMANCE PLANS**

The primary purpose for implementing pay-for-performance plans is to encourage employees to improve their performance so that the organisation can benefit by the improved performance. However, employees will only improve their performance if they can also benefit by it, hence rewarding employees by means of incentives.



**Study section 5.4 (objectives for implementing pay-for-performance plans) in chapter 5 of the prescribed book.**

You should now have a clear understanding of why organisations implement pay-for-performance plans. Let us now take a look at the different types of pay-for-performance plans.

## **5 TYPES OF PAY-FOR-PERFORMANCE PLANS**

There are two types of pay-for-performance plans.

### **5.1 Individual pay-for-performance plans**

With individual pay-for-performance plans employees get rewarded for achieving certain objectives individually. For example, Mark, a carpenter at Jules Wood, was rewarded for making a cabinet in a shorter period of time and for using less wood.



**Study section 5.5 (individual pay-for-performance plans) and table 5.1 chapter 5 of the prescribed book.**

After reading the relevant section in the prescribed book, you should understand what an individual pay-for-performance plan is. There are advantages and disadvantages associated with the implementation of individual pay-for-performance plans. The next discussion outlines a few types of



individual pay-for-performance plans. Refer to section 5.5 in the prescribed book to read more on the various individual pay-for-performance plans.

- **Merit pay**

Merit pay is awarded to employees after achieving certain objectives. There are two types of merit increases. Merit pay can be paid by means of a salary increase or alternatively it can be paid in the form of a bonus scheme where lump sum bonuses are paid based on a specific performance.

- **Piece rate plans**

Piece rate plans are based on the output that an employee produces. Piece rate plans are usually used in manufacturing businesses where it is possible to determine in quantitative terms how much an employee has produced. There are also two types of piece rate plans – a straight piecework and differential piece rate plan.

- **Management incentive plans**

Management incentive plans are applicable in cases where individual employees are rewarded for meeting the department objectives.

- **Behavioural encouragement plan**

Behavioural encouragement plans are used to reward employees for exceptional behaviour such as working overtime to complete a task or volunteering to assist other colleagues with their work.

- **Employee referral plans**

Employee referral plans are used to reward employees that recruit competent employees or who secures the support of important customers.

- **Commission scheme**

Commission schemes are used to motivate sales personnel, by awarding them a certain percentage of the income generated. This payment is usually done in the form of a commission.

If you have mastered the topic of incentive pay plans, complete activity 6.3.



### **Activity 6.3**

---

Read the following scenario and answer the question that follows.

Semakaleng, the owner of Semaka Furniture Produce, wants to increase the production of beds by 10% before the winter season. The average number of beds that an employee can complete in a day is 12. She promises her employees that, whoever produces more beds than the average per day will get a once-off discretionary bonus.

Which type of incentive pay plan is Semakaleng using and which kind of incentive pay will she use?



### **Feedback**

Semakaleng is using an individual-pay-for-performance pay plan because the reward will be based on the performance of an individual employee. Semakaleng will not use merit pay but a once-off bonus, payable by the end of the month.



The next section deals with group and organisation-wide pay-for-performance plans. It is not meant for examination purposes and you can simply **read** through it for background knowledge.

## 5.2 Group pay-for-performance and organisation-wide pay-for performance plans

- **Group pay-for-performance** – this is where a group of employees are rewarded for achieving an objective as a group. For example, a group of engineers at Train engineering are rewarded for producing a machine that enables Train to operate when the electricity is off; the machine is rechargeable and economically friendly.
- **Organisation-wide pay-for-performance** – this is where employees in an organisation are rewarded because the organisation has achieved its objectives. For example, Madimeng Woodworks has set a turnover goal of R2 000 000 for 2015. By the end of 2015, the financial statements showed a turnover of R3 000 000. The owner of Madimeng Woodworks awarded all the employees a portion of the R1 000 000 according to their position and responsibilities in the organisation. This is what he said when he addressed his employees: “Dear colleagues, we all contributed to make this year a success, let us enjoy the benefits of our hard earned labour”.

Read more on the last two types of pay-for-performance in the prescribed book.

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**Read section 5.6 (group pay-for-performance plans) and section 5.7 (organisation-wide pay-for-performance plans) in chapter 5 of the prescribed book.**

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In the next section we will discuss employee-based structures.

## 6 EMPLOYEE BASED STRUCTURES

Employees differ in skills and competencies. No two employees are the same in terms of performance based on their skills and competencies, and in that case they differ in how they do their jobs. In this section we will discuss the basis on which employees are remunerated, namely according to skills and competencies.

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**Study section 5.8 (Employee-based structures) in chapter 5 of the prescribed book.**

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### 6.1 Skills-based pay

Let us first define what skills-based pay is.

**Skills-based pay** is a remuneration system that rewards employees with additional pay in exchange for formal certification of the employee's mastery of skills, knowledge, and/or competencies.



### Study section 5.8.1 (Skills-based pay) in chapter 5 of the prescribed book.

Let us look at the following example: Electrical artisans must have specific competencies that are unique to electrical artisans. However, such artisans should also have the skills to conduct the actual physical electrical-related labour to complete their tasks. They are thus rewarded for their unique skills (and may also be rewarded for their unique competencies through competency-based pay).

After studying this section and the relevant section in the prescribed book about skills-based pay, you should now know the reasons why employers implement skills-based pay and the types of skills-based pay. Before implementing a skills-based pay system, the organisation needs to address design issues such as:

1. What is the *culture* of the organisation?
2. To what extent should employees be *involved*?
3. How should employee groups be *selected* for participation in the scheme?
4. How should *skill blocks* be determined?
5. Which *training* interventions should take place?
6. How often and when should the skills-based pay system be *reviewed* and renewed?
7. How should the plan be *communicated*?
8. How would accreditation and the *transition* from old to new plans be dealt with?

Now do activity 6.4.



### Activity 6.4

You are a HR remuneration specialist at Tsebo Engineering. The organisation has recently gone through a restructuring exercise and five new junior engineers have been appointed to support the increase in production. The new recruits do not understand the remuneration practices being used, especially the concept of skills-based pay and how it can benefit them.

You have been tasked to explain skills-based pay to the new recruits and how it could benefit them. How would you ensure they understand and support it?

### Feedback



You could start by explaining that skills-based pay is a remuneration system that is used to promote current and future skills by rewarding employees based on the acquisition of additional skills. Skills-based pay is a person-based pay system, because it is based on the virtues of the person rather than the job. You could discuss the reasons for adopting skills-based pay and that skills-based pay focuses on the skills required to benefit the organisation and its goals. The different types of skills-based pay should also be explained.

## 6.2 Competency-based pay

With competency-based pay, employees are paid for the range, depth, and types of skills and knowledge they are capable of using in the job rather than for the position they hold. Let us start with what is “competency-based pay?” When a new employee is recruited, the company will – in the initial stages – establish competencies that the new person should have in order to complete the job. Let us take a look at exactly what is meant by competence, skills, and knowledge.

- **Competence** is a demonstrable characteristic of the person, including knowledge, skills, and behaviours, which enable performance. Competencies are more general skills or traits needed to perform tasks, often in multiple job roles.
- **Skills** are acquired and observable expertise in performing tasks.
- **Knowledge** is acquired information used in performing tasks.



**Study section 5.8.2 (Competency-based pay), table 5.6 (The most commonly used competencies), and figure 5.4 (A model for competencies and selection) in chapter 5 of the prescribed book.**

Skills, knowledge, and competency all contribute to enhanced performance by the individual and to the organisation's success. We can therefore also reward employees based on their competencies. If we implement a competency-based reward system, we will focus on rewarding employees for their competence at work rather than their knowledge and skills.

Some objectives for competency-based pay systems are to focus on incentivising employees based on their ability and competence, rather than on their skills and knowledge. You should ask yourself, *Can he or she do the job? Is he or she competent enough to successfully complete the task at hand?* Competency-based pay will assist an organisation to predict the success of the individual as well as the organisation, and it will align the reward and core values of an organisation. Using competency-based pay will allow an organisation to develop a culture in which employees can grow, learn, develop, and continuously improve.

Now that you have studied this section and the relevant section in the prescribed book, you should know the types of most commonly used competencies, the purpose of competency-based pay systems, when is it appropriate to introduce competency-based pay systems, and the model for competency selection and definition. You can now complete activity 6.5.



### **Activity 6.5**

In order to understand the difference between skills and competencies, indicate with a cross whether the terms listed in the following table is a skill, competency, or simply knowledge.

<b>Terms</b>	<b>Skill</b>	<b>Competency</b>	<b>Knowledge</b>
Leadership		x	
Using Microsoft Outlook to send an e-mail			
Conducting research			
Problem solving			
Event planning			
Having good relationships with colleagues			
Employment law and employee relations			
Strategic thinking			
Making a presentation to management			
Goal driven			



## Feedback

Before you could do this activity, you had to make sure that you understand the difference between a skill and a competency. It is not as easy as it seems. Remember that skills refer to learned experiences whereas competencies refer to characteristics. Leadership would thus be a competency because leadership is more of a characteristic than a learned skill, although you do need skills to be a leader. Using Microsoft Outlook to send an e-mail refers to a skill. Sometimes the completion of a specific task will require knowledge and skills.

## 7 DESIGNING PAY-FOR-PERFORMANCE PLANS

Now that you know what a pay-for-performance plan is, you need to know how they are designed. Critical factors to consider in the design of any pay-for-performance plan include the efficiency and the perceived fairness of the plan and the extent to which the plan complies with labour legislation.



**Study section 5.10 (Designing a pay-for-performance plan) in chapter 5 of the prescribed book.**

## 8 SUMMARY

In this workbook we introduced you to pay-for-performance which focuses on rewarding employees based on their performance. Different types of pay-for-performance plans were discussed and we indicated how skills or competencies could be used for remuneration purposes. Competency-based pay focuses on the competencies of employees whereas skills-based pay focuses on the skills that employees acquire. Finally we introduced the critical factors to consider in the design of any pay-for-performance plan. The next workbook we deal with the last building block of the remuneration model namely employee benefits.

## 9 SELF-ASSESSMENT



You will recall that in the preface I mentioned that I will be following a different approach in this module. Self-assessment questions will therefore be provided at the **end of each topic** and not at the end of each workbook. The purpose of this is to facilitate an integrated assessment approach. This will enable you to gain a better understanding of how all the theory in each topic fits together. Self-assessment questions on Topic 2 will be provided at the end of workbook 07. These questions will cover the theory you have learnt in workbooks 03 to 07.



# HRM2603

## Compensation Practices

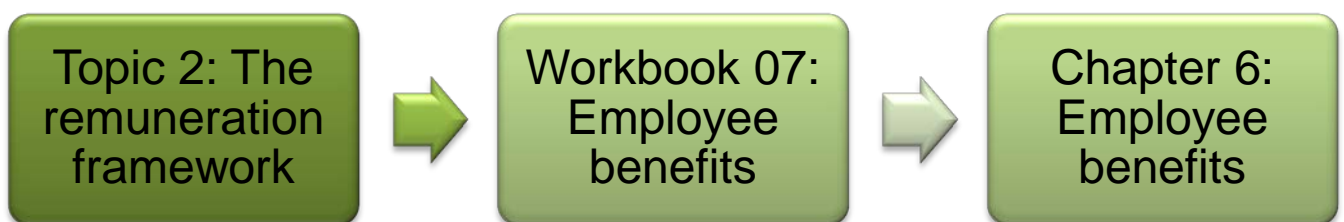
### WORKBOOK 07

#### Employee benefits

Contents		Pages
1	Introduction	79
2	What are employee benefits?	80
3	Why should employee benefits be offered?	81
4	Types of employee benefits	82
5	Flexible benefits	82
6	Implementation and administration of the employee benefit programme	83
7	Summary	86



The aim of this schematic representation is to give you an indication of where you are in the process of working through the study material. You are now busy with workbook 07 of topic 2 which is the final workbook for this module.

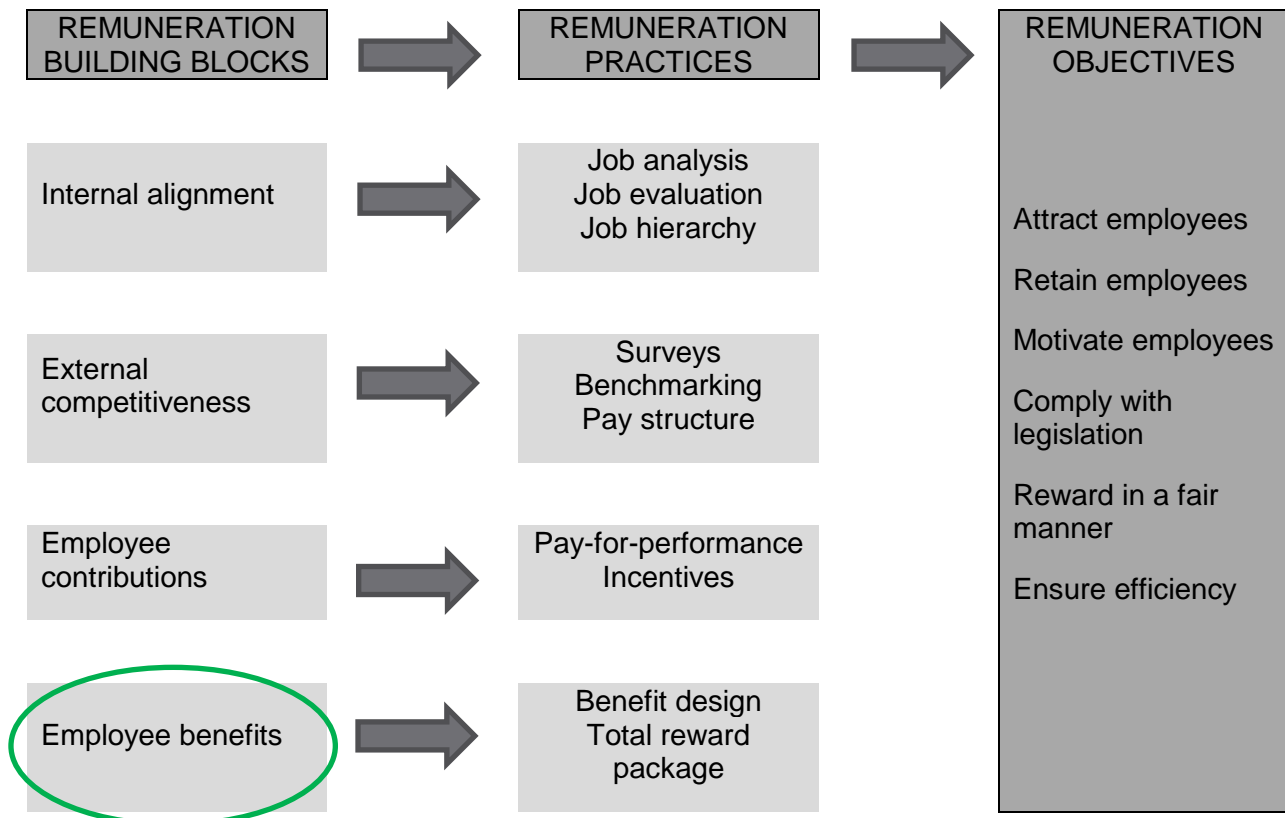


# 1 INTRODUCTION

In this workbook I will introduce you to employee benefits. Employee benefits are offered in addition to basic remuneration and differ from organisation to organisation. The offering of employee benefits is based on the remuneration strategy and objectives and the unique needs and preferences of employees.

Workbook 07, which is the last workbook, is based on the last building block of the remuneration framework, namely employee benefits.

**FIGURE 7.1: REMUNERATION FRAMEWORK**



**Source:** Adapted from Milkovich, Newman & Gerhart (2014), cited in Coetzee et al (2016)

Let us look at an example of how personal circumstances dictate choices about salary packages and specific employee benefits. Semakaleng is a 50 year old, married man and father of four children. Semakaleng is an experienced engineer and received a job offer from two engineering organisations. Semakaleng compared the reward packages of the organisations and thereafter accepted one of the offers.

TOTAL REWARD PACKAGES	
Organisation A	Organisation B
Basic salary (Annually) R 100 00 00	Basic salary (Annually) R 750 000
Medical cover Car allowance Housing subsidy	Medical cover Hospital cash plan Health screening Personal accident cover Enhanced pension benefits Children study allowance

Being a 50 year old man, Semakaleng is close to retirement and concerned about health issues and children's tuition fees. It would thus make good sense for Semakaleng to accept the job offer of organisation B. Had Semakaleng been 25 years of age, he would probably have preferred a larger salary which offered additional benefits such as a car allowance and housing subsidy. This example illustrates the importance of both the cash and employee benefits components of remuneration and of offering employees choices in terms of benefits.

### Key concepts



The key concepts in this workbook are the following:

<ul style="list-style-type: none"> <li>• Employee benefits</li> <li>• Core benefits</li> <li>• Optional benefits</li> <li>• Core cafeteria plan</li> </ul>	<ul style="list-style-type: none"> <li>• Buffet plan</li> <li>• Alternative dinners plan</li> <li>• Probation periods</li> </ul>
--	--

## 2 WHAT ARE EMPLOYEE BENEFITS?

Before we discuss what employee benefits are, let us first look at the definitions. **Employee benefits** are that part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments (e.g., life insurance, pension, workers' compensation, vacation) (Milkovich et al 2011:654).

Employee benefits are additional remuneration provided for the services or work rendered by employees. Employee benefits form part of the employee's total reward package. Organisations use employee benefits to attract, retain, and motivate employees. When they are well implemented they can be used as an organisation's competitive advantage.



**Study section 6.2 (What is an employee benefit?) in chapter 6 of the prescribed book.**



**Refer to the following links to understand what employee benefits are:**

<https://youtu.be/hwd5Ry9zXFA?t=102>

[https://youtu.be/PiQUtbc\\_gnE?t=65](https://youtu.be/PiQUtbc_gnE?t=65)

After you have studied the section in the prescribed book and watched the videos, you should know that employee benefits are remuneration elements which form part of the total remuneration package. Organisations are required by law to offer certain employment benefits. You can now complete activity 7.1.



### Activity 7.1

You have been appointed as a remuneration analyst for an architectural organisation that has been operating for 45 years. After having a meeting with the organisation's employee representatives, you realise that a number of employees complained about their salary packages. One employee wanted housing subsidy, others preferred no benefits but a higher salary, others required elderly and child care benefits, and so forth.



Discuss why organisations should offer a variety of benefits.



### Feedback

You first need to discuss what employee benefits are. You should also indicate that an attractive and a well-designed employee benefits package could give the organisation a competitive advantage and make it an employer of choice. Diverse employee benefits will attract different employees of different ages and backgrounds. Employees are attracted to an organisation that offers an extensive array of employee benefits that speaks to individual needs.

The next section deals with the reasons why organisations should offer employee benefits plans.

## 3 WHY SHOULD EMPLOYEE BENEFITS BE OFFERED?

Employee benefits that meet the needs and the lifestyle of employees can create a competitive advantage for an organisation. Employee benefits can attract, retain, and motivate employees. For example, at the beginning of the workbook Semakaleng took the offer of organisation B, simply because the benefits offered at organisation B were better suited to his needs. Someone else might not have chosen organisation A, depending on their particular needs.



**Study section 6.3 (Why should employee benefits be offered) and table 6.1 (Reasons for providing employee benefits) in chapter 6 of the prescribed book.**

Organisations should introduce employee benefits that meet different employee needs; this will benefit both the employers and their employees. After studying the relevant section in the prescribed book, do activity 7.2.



### Activity 7.2

Read the case study and answer the question that follows:

Matsebe Poultry is based in Ndebele and has been operating for 30 years. As a result of Matsebe's poor financial situation, no salary increases can be granted this year. The trade union is very upset about this decision and has demanded the following additional employee benefits in return:

- (a) A childcare allowance of R200 per month for each employee
- (b) Funeral insurance for all pensioners

Lerumo, the HR manager of Matsebe Poultry suggest that Matsebe cancel ALL employee benefits and simply give each employee a salary increase of 20%. If no benefits are offered, the endless problems regarding the provision of employee benefits will also come to an end.

"The following problems are the primary reasons for my suggestion": says Lerumo

- 1 Employee benefits are becoming too expensive.
- 2 Employees complain that the benefits do not satisfy their personal needs.
- 3 Trade unions make unrealistic demands and do not consider the financial implications of their demands.
- 4 Employees are totally ignorant about the employee benefits provided and do not realise how much money is spent on them.
- 5 The administration of employee benefits causes problems as claims are not processed promptly.

Why should Matsebe Poultry provide employee benefits? In which way is the provisioning of benefits beneficial to both the employee and the organisation?



### Feedback

Employee benefits will attract, retain, and motivate employees. Employee benefits can contribute to Matsebe Poultry's competitive advantage and they can therefore become an employer of choice among its employees. This means that if Matsebe Poultry can implement an employee benefits programme that is attractive and appealing to its employees, it can add to the organisation's status and attract employees. The offering of employee benefits costs less than simply paying higher salaries because employee benefit costs can be deducted for tax purposes and thus reduces labour costs. Other reasons for providing employee benefits include enhanced efficiency and business profits, increased ability to attract competent employees, improved retention of employees and the existence of collective agreements with the trade union which might prevent the organisation from simply discontinuing the provisioning of certain benefits.

After understanding why organisations should offer a variety of employee benefits, let's now look at the different types of employee benefits.

## 4 TYPES OF EMPLOYEE BENEFITS

As you can recall from workbook 01 and chapter 1 in the prescribed book, the employee benefits that organisations offer can be categorised into discretionary and legally required benefits. Discretionary benefits are often offered to establish the organisation as an employer of choice and to provide a competitive salary package e.g. protection programmes (disability insurance, life insurance, pension fund, and medical insurance), paid time off (employee assistance programmes, childcare facilities and company car) and other benefits (staff lunches, cell phones allowance and petrol allowance). Legally required benefits are mandated by law and all organisations are required to provide these benefits e.g. unemployment insurance fund, compensation for occupational injuries and diseases and skills development.

In an attempt to use employee benefits to attract, retain, and motivate employees, organisations often offer flexible benefits packages. Flexible benefits will be discussed in the next section.

## 5 FLEXIBLE BENEFITS

Flexible employee benefits provide employees with the opportunity to choose from a variety of benefits offered by their employer. This enables organisations to cater for and attract different employees with different needs. Masello, a 35-year-old female who has a one-year-old baby will not be attracted to the same employee benefits as Derik, a 22-year-old male who is not married nor has any dependants. Flexibility caters for different employee needs.



**Refer to the following link to learn about the advantages for both employers and employees when organisations implement flexible employee benefits plans.**

<https://youtu.be/KiPJf97SufU?t=95>



**Study section 6.5 (flexible benefits) in chapter 6 of the prescribed book.**

After studying section 6.5 and the relevant section in the prescribed book, you should know how employee benefits plans are put together. Three major types of flexible employee benefit plans exist, namely core cafeteria plan, buffet plan, and alternative dinners plan. Organisations have various reasons for offering flexible benefits plans and you should thus be able to outline the advantages and disadvantages associated with the implementation of flexible benefits plans. Now let's do the following activity.



### Activity 7.3

Read the following two scenarios and answer the question that follows:

**Scenario A** – Penny is a 35-year-old single mother of two children; one is one year and seven months old and just started pre-school and the other one is eight years old and in grade 3. Penny is a financial manager at Ikageng call centre. Penny is passionate about her job and always exceeds her performance target. Penny has indicated that she is not happy with the employee benefits being offered at the organisation and that she might consider leaving Ikageng call centre for an organisation which offers daycare assistance.

**Scenario B** – Jacky is 25-year-old single man, who has a love for the outdoors. Jacky works at the IT department as a network administrator at Ikageng call centre. Jacky is really good with his job; and he is very energetic and obsessed with body fitment. He often mentions to his manager that he sees no importance of the other employee benefits that the organisation offers and that he wishes they were offering gym allowance to keep employees fit.

Discuss how flexible benefits will solve the problem at Ikageng call centre.

### Feedback



Firstly you have to discuss what flexible benefits involve. Then further discuss how it will assist Ikageng call centre to retain Penny and Jacky who both want different employee benefits because of their different personal needs. The provisioning of flexible employee benefits plans is however not an easy task and the remuneration specialist should make sure that a proper system exists for the administration of an employee benefits programme. Flexible benefits allow organisations to cater for the needs of a diverse workforce. Ikageng call centre's management can use one of the three major types of flexible employee benefits (cafeteria plan, buffet plan, or alternative dinners plan) to cater for the different needs of Penny and Jacky.

The next section will discuss the implementation and administration of the employee benefits programme.

## 6 IMPLEMENTATION AND ADMINISTRATION OF THE EMPLOYEE BENEFIT PROGRAMME

After the remuneration management of an organisation has decided on the type of employee benefits package to offer, they must implement and administer the programme. The most important steps for the implementation and administration of an employment benefits programme include the following:

- **Communicating employee benefits**

The types of employee benefits available to employees must be communicated. Most employees are unaware of the employee benefits being offered by their organisations. Let us look at the example of Lesiba, an administrative worker at Naledi insurance brokers. Lesiba's child, Mokgadi, completed matric and took up a part-time job as a security guard because Lesiba did not have the necessary funds to send Mokgadi to college. After speaking to a colleague, Lesiba realised that she could have

applied for a study bursary which would have enabled her to send Mokgadi to college. Proper communication would have solved this problem.

- **Processing of claims**

The processing of claims must be done in a fair and valid manner. When processing claims for employees the same procedure must be followed for every employee to avoid complaints and perceptions by some employees that they have been treated unfairly. Claims should also be dealt with in a prompt manner.

- **Cost management**

Remuneration specialists are faced with a challenging task of managing the cost of employee benefits. Remuneration specialists have to decide whether they should offer a certain benefit or if there is a better use for the money. Remuneration specialists can adopt the following strategies to ensure the effective management of employee benefits.

- Probation period – employees will have to work for a certain period before they can submit claims.
- Benefit limitations – this will allow employees to claim up to a certain percentage of their salary.
- Party contributions – who should pay for the benefit?

**It can be:**

- The employer paying the total cost of the benefit
- Employer and employee sharing the cost of the benefit
- Employee paying for the total cost of the benefit

The remuneration specialist may decide to outsource the administration of benefits, but they will first have to consider the cost effectiveness of outsourcing. Employee benefit outsourcing is when an organisation contracts another organisation to be responsible for the administration of certain employee benefits such as medical aid or life insurance.



**Study section 6.8 (Implementation and administration of the employment benefits programme) and table 6.4 (Advantages of the various forms of benefit financing) in chapter 6 of the prescribed book.**

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In section 6 and the relevant section in the prescribed book you learned that organisations can decide to outsource certain functions. For example: an organisation may approach one or two medical aid schemes to provide medical coverage for its employees. You also learned the importance of communicating the benefits available to employees, how employee claims are processed and the challenges of managing the cost of employee benefits plans.

Now do activity 7.4:



**Activity 7.4**

---

You have recently been appointed as a remuneration specialist for a new construction company in Mabopane. The owners want you to assist them in the development of the employee benefits programme. They want to offer different types of employee benefits but do not know how they will finance them. Critically discuss the advantages of the various forms of benefit financing.



### Feedback

You should first define the various forms of benefit financing. Then discuss their advantages. For example, contributory financing is when the employer and employee share costs for the plan. Its advantages include employee appreciation of the plan since they help to finance it. More benefits can be provided because additional funds are available through employee contributions. Employees will also not abuse the coverage because it might increase their own contributions. Contributory financing also provides employees with greater control of costs.



### Activity 7.5

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With reference to the case study in activity 7.2, discuss the five problems stated by Lerumo, the HR manager and indicate how each should be managed.



### Feedback

To answer this question you need to refer to the entire workbook.

- 1 Employee benefits are becoming too expensive

To manage the costs of providing benefits, the remuneration specialist at Matsebe Poultry should consider the financing of benefit plans by means of a **contributory plan**. Contributory plans involve the employer and employee sharing the cost of the benefit plan.

- 2 Employees complain that the benefits do not satisfy their personal needs

Matsebe Poultry should consider offering flexible benefits. Flexible benefits will allow employees to select the benefits that will be of value to them. There are three major types of flexible benefit plans which Matsebe Poultry can use, namely core cafeteria plan, buffet plan, and alternative dinners plan. The organisation should conduct a survey and determine which employee benefits are preferred by employees.

- 3 Trade unions make unrealistic demands and do not consider the financial implications of their demands

One of the reasons for providing employee benefits is to meet the **demands in labour negotiations**. Matsebe Poultry does not have to grant the trade union's demands, but it may be to its advantage to make compromises regarding the benefits, rather than granting salary increases. Trade union representatives should be provided with financial statements so that they can understand the implications of their demands on the financial situation of the organisation.

- 4 Employees are totally ignorant about the employee benefits provided and do not realise how much money is spent on them.

To make employees realise how much money is spent on employee benefits, Matsebe Poultry can issue employee benefit statements and indicate to employees how much the provisioning of employee benefits cost. The total remuneration package plan will also indicate to employees how much is spent in total on them.

5 The administration of employee benefits causes problems as claims are not processed promptly

The organisation should do an analysis of its ability to manage the administration of employee benefits. Outsourcing could be an option if the organisation does not have the necessary capacity, skills, or funds to take care of the administration. Outsourcing might solve the problem regarding the prompt processing of claims.

## **7 SUMMARY**

This workbook introduced you to employee benefits. I highlighted the reasons why organisations offer employee benefits and discussed various types of employee benefits. I further discussed flexible benefits, the types of flexible employee benefit plans, and the advantages and disadvantages of offering flexible benefits. I concluded by discussing issues related to the implementation and administration of the employee benefits programme.



## INTEGRATED SELF-ASSESSMENT QUESTIONS FOR TOPIC TWO

### Question 1

What does a salary (remuneration) survey entail and how can it benefit the organisation? [5]

### Question 2

This question is based on the following remuneration data:

Position: HR Advisor	Employee 1	Employee 2	Employee 3	Mean
Basic salary	R 13 500	R 16 000	R 18 500	?
Midpoint/market salary	R 16 000	R 16 000	R 16 000	R 16 000
Compa-ratio	?	100%	?	100%



**You need to show your calculations**

Calculate the following:

- (a) Mean of the basic salary for the HR Advisor position [3]
- (b) Compa-ratio for Employee 1 [2]
- (c) Compa-ratio for Employee 3 [2]

You also need to indicate the implications of your calculations (mean and compa-ratio) for all the employees. [4]

### Question 3

Job analysis has been considered the cornerstone of human resource management. Precisely how does it support managers to make pay decisions? [5]

### Question 4

After joining Mojalefa call centre as an HR administrator, you realise that their remuneration structure comprises of base pay only. You want to convince your HR manager that they should consider including employee benefits as part of the remuneration system. Make a presentation and explain why adding employee benefits will benefit the organisation. [10]

### Question 5

Discuss the relationship between a job analysis, a job description, and a job evaluation. How do these practices help establish internally aligned job structures? [10]

### Question 6

The CEO at your organisation has asked you to redesign the current pay structure. You have to put together a team to assist you in this task, but you have found that they do not know much about pay structures. Which topics will you include in a one-day workshop to familiarise everyone on the matter? [10]

**Question 7**

Developing a pay structure requires detailed planning. How will you start your planning? [5]

**Question 8**

The HR director of your organisation is unsure how to reward the employees in the organisation. Fortunately, you recently returned from a two-day workshop where the various options of rewarding employees were discussed and you have now arranged a one-hour meeting with the HR director. Prepare a presentation informing him about pay-for-performance and competency-based pay. [10]

**Question 9**

Discuss how remuneration managers use consolidation. [5]

**Question 10**

After returning from a workshop about pay-for-performance plan, your HR director has decided to start implementing a pay-for-performance plan immediately. He sent you an e-mail requesting your advice on which type of pay-for-performance plan would be most appropriate in your organisation. What plan would you suggest? [10]

**Question 11**

Discuss the three major types of flexible benefits. [6]





## FEEDBACK TO SELF-ASSESSMENT QUESTIONS FOR TOPIC TWO

### Question 1

You may answer this question by starting to provide a definition of what a salary (remuneration) survey is and by explaining the purposes and benefits of a survey. You can refer to information on the importance of remuneration surveys. Some of the reasons why salary (remuneration) surveys are used, are to adjust pay levels and for an organisation to determine the going pay rate in the labour market.

### Question 2

#### (a) Mean of the basic salary for the HR Advisor position

*Calculating the mean:*

The mean is the average of all the numbers summed together.

Therefore, you need to add all the figures together:  $13500 + 16000 + 18500 = 48\ 000$

$R\ 48\ 000 \div 3 = R\ 16\ 000$

The mean is therefore **R 16 000**

Based on the calculation of the mean, it is evident that Employee 2 is the only employee whose salary is market compatible and they are being paid at the market average.

#### (b) Compa-ratio for Employee 1

Employee 1:

$R13\ 500 / R16\ 000 = 0.84$

$0.84 \times 100 = 84\%$

Industry guidelines or norms indicate that an 84% compa-ratio is **low** and there is a risk of losing the employee. Based on the calculation, it seems like the employee is underpaid, and the organisation may lose them to the competitors if the salary is not made market compatible.

#### (c) Compa-ratio for Employee 3

Employee 3:

$R18\ 500 / R16\ 000 = 1.16$

$1.16 \times 100 = 116\%$

Based on the calculation, it seems like the employee is overpaid in comparison to the other employees in the same position.

### Question 3

Work-related information is needed to determine pay for each job in an organisation, based on the different tasks and responsibilities of each job. Remuneration is therefore based on job and not employee based factors.

One of the questions most asked by employees is related to pay. For example, "why am I paid 'x'?" or "why does Jane make more than I do?" A properly performed job analysis process will provide a manager with reliable, accurate data to explain why an employee is paid a certain amount and to discuss the differences in pay rates for different jobs (in response to the "Why does Jane make more

than I do?" question). Thus, job analysis data can help managers to defend their pay decisions when they are challenged.

#### **Question 4**

In your presentation you will first have to explain what employee benefits are. Indicate how the provisioning of employee benefits links to the pay policy and the attraction and retention of employees. You should also indicate how employee benefits add to the organisation's status as an employer of choice. You can also discuss the reasons for providing employee benefits.

#### **Question 5**

Job analysis is a systematic process for gathering, documenting, and analysing information in order to describe jobs. A job analysis describes content or job duties, worker requirements, and – sometimes – the job context or working conditions. A product of the job analysis process is a job description. After a job analysis is conducted, organisations perform job evaluation. Job evaluation is used to systematically recognise differences in the relative worth among a set of jobs and establish a job hierarchy to which pay levels can be allocated. Whereas job analysis is almost purely descriptive, job evaluation partly reflects the values and priorities that management places on various positions. These processes enable organisations to establish pay levels and an internally alignment job structure which is based on job related information.

#### **Question 6**

You can refer to workbook 5 and the "terminology" section in your prescribed book to assist you in completing this question. You can draft a few PowerPoint slides to present to your team on pay structuring and the terminology they should know. You should cover the following topics in your workshop:

- What is a pay structure?
- Pay ranges
- Pay overlaps
- Slopes
- Ratios

#### **Question 7**

Pay structures should have certain characteristics. You can answer this question by firstly looking at the issues you should consider prior to developing and designing a pay structure. This you will find in section 4 of workbook 5. After discussing the issues, explain the steps in the development of a pay structure. Conclude with considering the factors that could influence the design and development of a pay structure.

#### **Question 8**

You can approach this question by first providing the definition and objectives of a pay-for-performance plan. Point out the criteria for pay-for-performance plans as a motivator. Conclude by discussing the definition and purposes of competency based pay and when it would be appropriate to introduce a competency-based pay in an organisation.

#### **Question 9**

You can answer this question by discussing what consolidation is. Consolidation is when remuneration managers match comparable jobs (compare apples with apples). You cannot compare the position of an accountant with the position of an engineer when setting pay levels because the jobs require

different levels of skills, competencies, decision making, responsibilities, and so forth. By means of consolidation, remuneration experts match the job content and not the job titles.

### Question 10

You are required to assist the HR director in choosing the most appropriate type of pay-for-performance plan for the organisation. You will have to explain the different types of pay-for-performance plans, their advantages and disadvantages, and how they link to different types of organisations (you can also explain this to the HR director in a table format).

### Question 11

In answering this question you had to discuss:

- **Core cafeteria** – gives employees the freedom to choose between benefits while protecting them against poor decisions.
- **Buffet plan** – start employees with their exact current benefit coverage and allows them to decrease coverage in some areas in order to earn credits for other benefits.
- **Alternative dinners plan** – provides a number of packages to choose from, with approximately the same value.

## APPENDIX C: BIBLIOGRAPHY

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