



## Chapter One

### The Pay Model

# Ground Rules

- Show up on time and come prepared
- Safe learning space so you can be brave
- No judgement
- Indigenous circle rule – when one person is speaking, don't interrupt
- Value and respect differences
- Remain open to new ideas
- Anything else?



# Land Acknowledgement

McMaster University recognizes and acknowledges that it is located on the traditional territories of the Mississauga and Haudenosaunee nations, and within the lands protected by the “Dish with One Spoon” wampum agreement.



# Agenda



Course Introduction



Who am I?



Who are you?



Course evaluation



Chapter 1 Review – Pay Model



Questions?

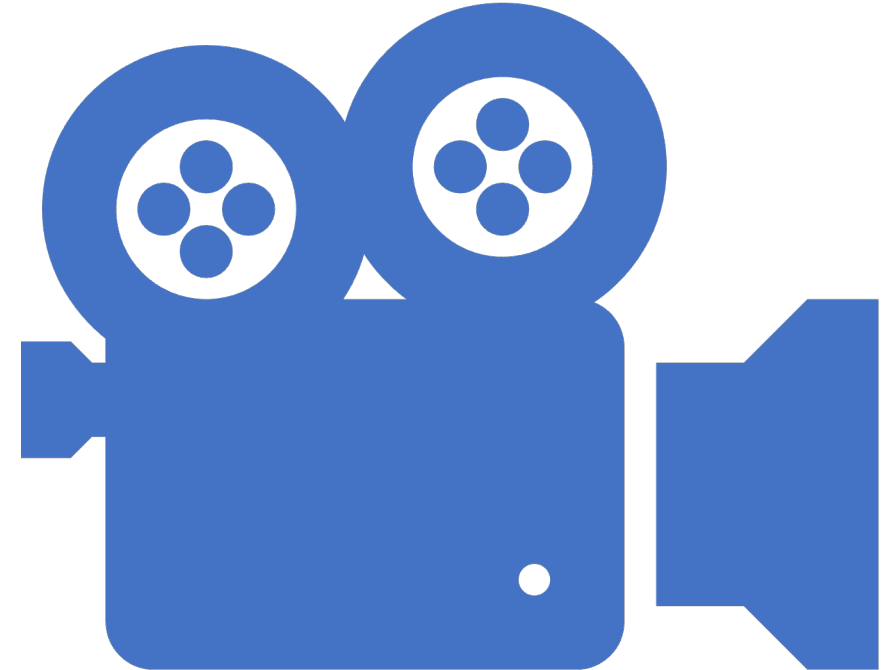
# Who am I?

- Thanuja Thananayagam PhD Candidate – University of Toronto
- My pronouns are She/ Her/ Hers
- HR Practitioner with over 15 years of senior level HR experience
- Having been teaching for 4 years
- I LOVE dogs!!



# Who are you?

- Record a one-minute video indicating
  - Your name
  - Your pronoun
  - Two truths and a lie
- Post on Avenue to Learn – Discussion
- Contribute towards participation (1 point)



# COURSE ASSESSMENTS

<b>Grade Component</b>	<b>Weight</b>	<b>Description</b>
<b>Participation and Engagement</b>	10%	Actively participate in class discussions.
<b>Discussion Board</b>	10%	Read the posted article and respond to the question. Read at least 1 post from a colleague and respond.
<b>Midterm/Quizzes</b>	20%	Midterm: MCQs
<b>Group Project Report and Digital Presentation</b>	25%	Group Project Report – 20% Group Presentation – 5%
<b>Final Assessment</b>	35%	Midterm: MCQs

# Participation and Engagement

- Attendance is not mandatory, but active participation is
- Criteria – Attendance, Preparation, Contribution to Discussion, Quality of Contribution, Collaboration and Respect for Others
  - Attendance - Always present and on time, actively engaged
  - Preparation - Consistently comes prepared for class
  - Contribution to Discussion - Regularly contributes insightful and relevant ideas, fostering class discussion
  - Quality of Contribution - Provides thoughtful, well-articulated responses
  - Collaboration - Actively collaborates with peers in group activities and projects
  - Respect for Others - Consistently respects classmates and the instructor actively listens

**Worth 10%**





# Discussion Post

- Weekly x 10 posts
- Active participation in the discussion board by posting an original post (responding to the reading) and replying to colleague's post (at least 1)

**Worth 10%**



# Midterm/Quizzes/ Final Assessment



## Midterm – worth 20%

Multiple choice questions

Short answers

60 minutes

In-class



## Final Assessment – worth 35%

Multiple choice questions

Short answers

In-class

# Group Project Report and Digital Presentation

- Groups of 5 – 6 students
- I will pick the team
- What is expected of you includes, but is not limited to the following:
  - All members of the group work together in a fictional Consulting Group
  - The group must establish a group contract which outlines
  - All members of the group work together to prepare and present on a given topic/question during
  - All members of the group work together to prepare and submit a report responding to the given
- More information to follow

**Worth 25%**



# Learning Outcomes



Define the term compensation



Describe how compensation is viewed differently by society, stockholders, managers, and employees in Canada and around the world



Discuss major components of total rewards

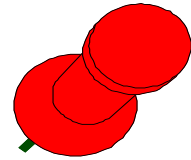


Identify and explain the strategic objectives of compensation



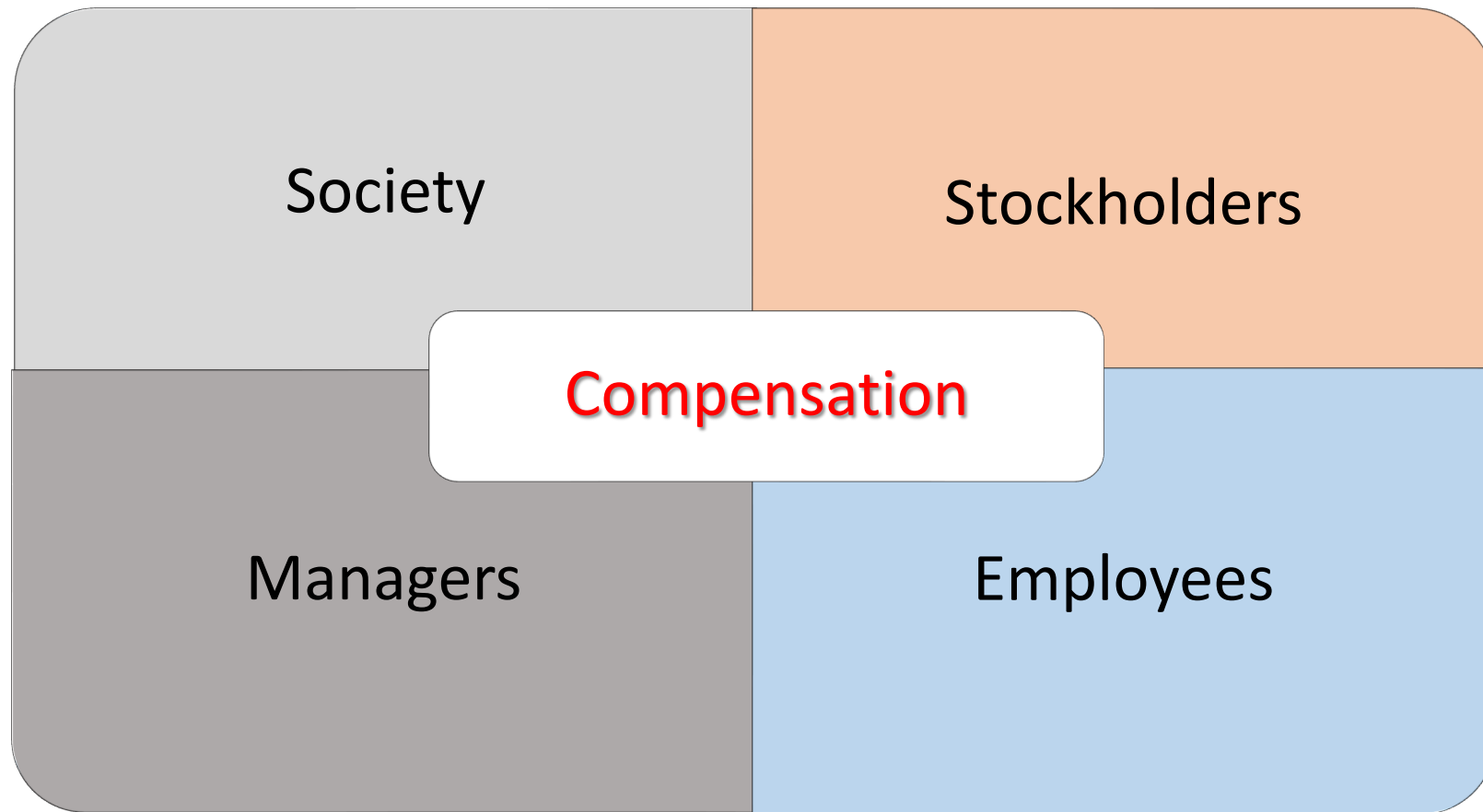
Describe the four strategic policies in the pay model and the techniques associated with them

# What is Compensation?



Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship.

# Different Perspectives



# Society



**Some people see pay (and benefits) as a measure of justice.**

Example: pay inequalities between men and women.



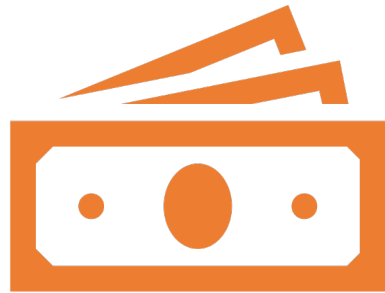
**Job losses (or gains) in a country is partly a function of labor costs (and productivity).**

# Stockholders

- ❑ Some stockholders say using stock to pay employees creates a sense of ownership.
  - ❑ Others argue it dilutes stockholder wealth.
- ❑ Stockholders have a particular interest in executive pay.
  - ❑ Linking executive pay to company performance increases stockholders' returns.



# Managers

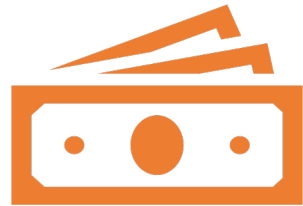


Compensation is a major expense that must be managed.



It is also a major determinant of employee attitudes and behaviours.

# Employees



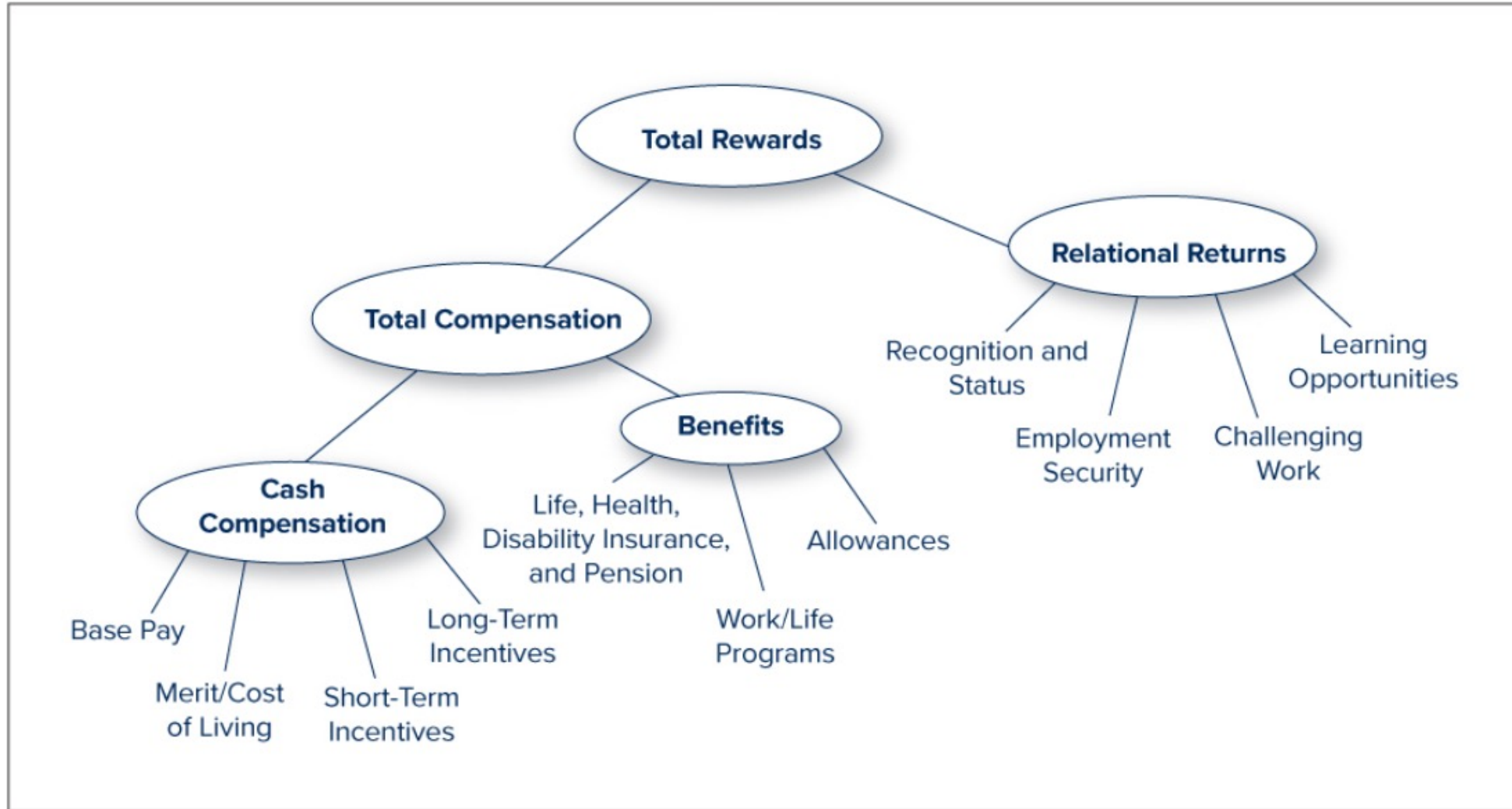
**Pay is usually a major source of financial security.**



**Employees may see compensation as:**

a return in an exchange,  
an entitlement for being an employee of the company,  
an incentive to take/stay in a job and invest in  
performing well, or  
as a reward for having done so.

## EXHIBIT 1.3 Total Rewards



# Total Rewards

- ❑ Total compensation:
  - ❑ pay received directly as cash payments, such as base pay, merit pay, cost-of living adjustments, and incentives; and
  - ❑ pay received indirectly as benefits, such as vacation, pensions, and health insurance.
  
- ❑ Relational returns
  - ❑ Psychological returns, such as Recognition and status, employment security, learning opportunities, challenging work.

# Cash Compensation: Base Pay, Merit/COLA & Incentives

- ❑ Base pay: Cash that an employer pays in return for the work performed, based on the skill or education an employee possesses
- ❑ Merit increases are increments to base pay based on performance.
- ❑ A cost of living adjustment (COLA) is made to base pay on the basis of changes in costs of living.
- ❑ Incentives (or bonuses) are paid in a lump sum rather than becoming a part of base pay, based on performance. Can be long or short term.

# Benefits

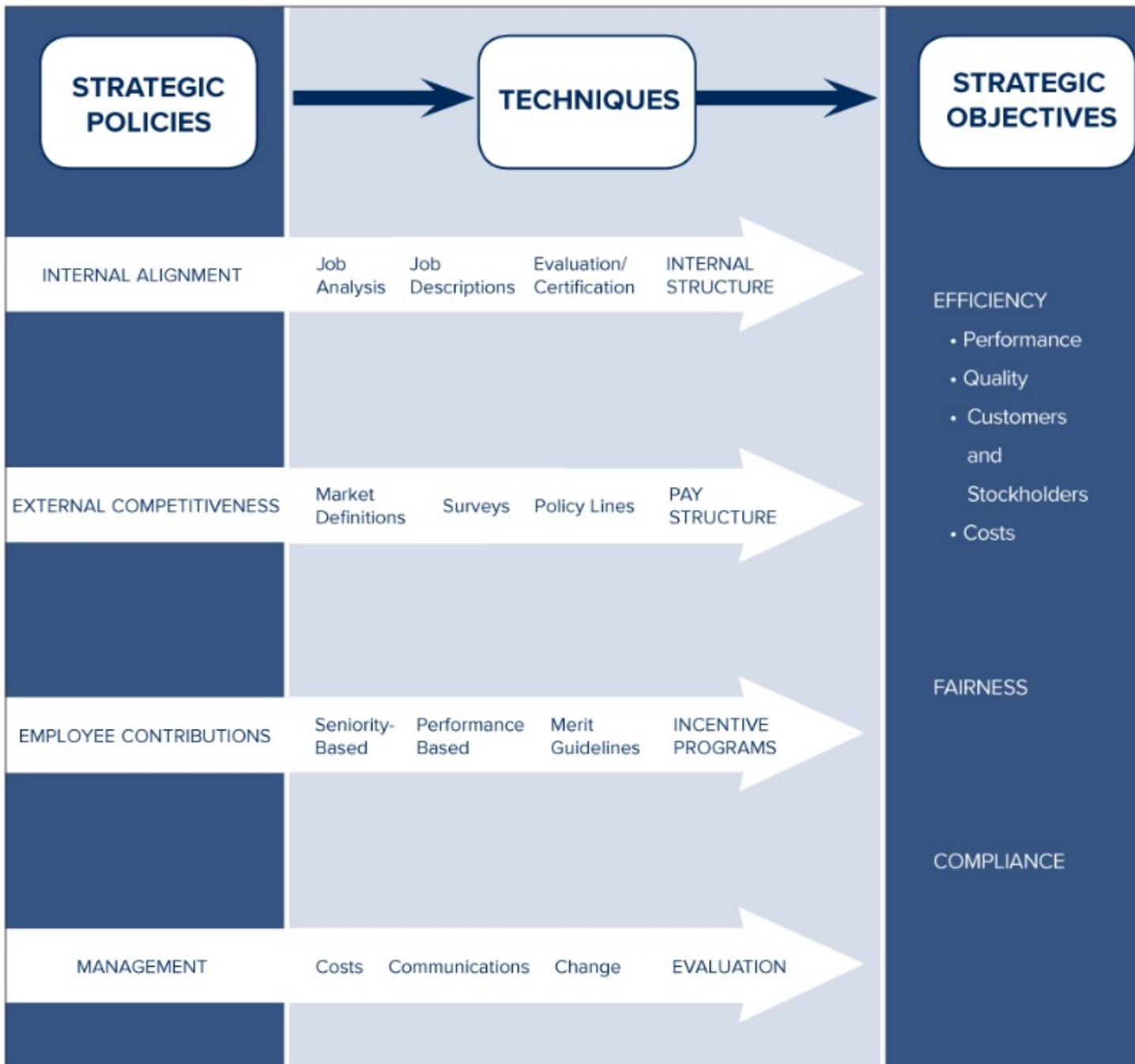
- ❑ Health Insurance
  - ❑ Health insurance (medical/dental/vision), life and disability insurance
- ❑ Pension
  - ❑ Retirement and savings programs.
- ❑ Allowances
  - ❑ often grow out of short supply
  - ❑ Example: housing and transportation allowances in China

# Relational Returns

Nonfinancial returns that substantially impact employee behavior, such as employment security and learning and developmental opportunities.

A network of returns: Created by different forms of pay; useful if bonuses, development opportunities, and promotions all work together.

EXHIBIT 1.4 The Pay Model



# The Pay Model

Three basic building blocks:

- ❑ The compensation objectives.
- ❑ The policies that form the foundation of the compensation system.
- ❑ The techniques that make up the compensation system.



# Compensation Objectives

Pay objectives guide the design of the pay system and are standards for judging success.

- ❑ Efficiency: improving performance, increasing quality, and controlling costs.
- ❑ Fairness: both the process and outcomes of pay decisions should be fair.
- ❑ Compliance: conforming to federal, provincial and territorial laws and regulations.

# Examples: Pay System Objectives

## Exhibit 1.5 Comparison of Pay System Objectives at Medtronic and Whole Foods

### Medtronic

- ❑ Support Medtronic mission and increased complexity of business
- ❑ Minimize increases in fixed costs.
- ❑ Attract and engage top talent.
- ❑ Emphasize personal, team and Medtronic performance.
- ❑ Recognize personal and family total well-being.
- ❑ Ensure fair treatment.

### Whole Foods

- ❑ Increase long-term shareholder value.
- ❑ Earn profits through voluntary exchange with our customers.
- ❑ Through profits, create capital for growth, prosperity, opportunity, job satisfaction and job security
- ❑ Support team member happiness and excellence
- ❑ Acknowledge team outcomes are collective.

# Four Strategic Policies: (1) Internal Alignment

- ❑ Refers to comparisons among jobs or skill levels inside a single organization.
- ❑ Pertains to the pay rates both for employees doing equal work and for those doing dissimilar work.
- ❑ Pay relationships affect the compensation objectives of efficiency, fairness and compliance.

# Four Strategic Policies : (2) External Competitiveness

- ❑ Refers to pay comparisons with competitors external to the organization.
- ❑ Pay is 'market driven'.
- ❑ Objectives:
  - ❑ To ensure that pay is sufficient to attract and retain employees.
  - ❑ To control labor costs to ensure competitive pricing of products/ services.

# Four Strategic Policies: (3) Employee Contributions

- Refers to how employees are rewarded.
- Understanding the basis for judging performance, helps perceive pay as fair.

# Four Strategic Policies: (4) Management

- Making sure that the right people get the right pay for achieving the right objectives in the right way.

# Pay Techniques

- ❑ Techniques tie the four basic policies to the pay objectives.
- ❑ Techniques refer to the tools and mechanisms that are used to achieve the strategic objectives.
- ❑ Many variations of pay techniques exist.

# Summary

- ❑ Compensation refers to all forms of financial returns and tangible services and benefits that employees receive as part of an employment relationship.
- ❑ There are different perspectives on compensation: society, stockholders, managers and employees.
- ❑ The two major components of total rewards are total compensation and relational returns. Total compensation is composed of cash compensation (base pay and incentives) and benefits. Relational returns include psychological aspects of work such as recognition and status, challenging work, and learning opportunities.
- ❑ The strategic objectives of compensation are efficiency, fairness and compliance.
- ❑ The four strategic policies in the pay model are internal alignment, external competitiveness, employee contributions, and management.



# Next week

- Read Chapter 2
- **Case:** Difficult to copy in (Yap et al., pages 31-32)
- Due – Discussion Post (week 1) - January 16<sup>th</sup> @ 11:59 pm